

**THE INFLUENCE OF CORPORATE POLITICAL ACTIVITY AND
COMPETITIVE STRATEGY ON THE RELATIONSHIP BETWEEN
INNOVATIVE CAPABILITY AND PERFORMANCE OF LARGE
MANUFACTURING FIRMS IN KENYA**

BY

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PHILOSOPHY IN BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS,
UNIVERSITY OF NAIROBI**

NOVEMBER 2015

DECLARATION

This Thesis is my original work and has not been submitted to any University for an award of Degree or Diploma. All references cited in the text have been duly acknowledged.

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DEDICATION

I dedicate this thesis to my father, the late Wilson. J. Odek, my spouse Dr. Jacktone Yala and my children Gordon, David, George and Brian. Thank you all and may God bless you abundantly.

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ABBREVIATIONS AND ACRONYMS

BSC: Balanced Scorecard

CPA: Corporate Political Activity

CSR: Corporate Social Responsibility

GDP: Gross Domestic Product

GOK: Government of Kenya

KAM: Kenya Association of Manufacturers

KEPSA: Kenya Private Sector Alliance

KIPI: Kenya Intellectual Property Institute

KIPPRA: Kenya Institute for Public Policy Research and Analysis

R&D: Research and Development

SBSC: Sustainable Balanced Scorecard

ABSTRACT

Recent studies have examined innovative capabilities and discussed their impact on firm performance. However, the studies have ignored the external political operating environment. This study extended the innovative capability stream of research and examined how corporate political activity and competitive strategy influence the relationship between innovative capability (internal learning processes, technological innovation, and research and development intensity and employee development) and performance (financial performance, customer satisfaction, process performance and employee satisfaction) of large manufacturing firms in Kenya. The study had five objectives. The research design was cross sectional. Empirical data was collected from one hundred and twenty nine firms listed in the Directory of Kenya Association of Manufacturers. Evidence was found of positive systematic innovative capability/corporate political activity/competitive strategy/ performance relationship. As anticipated, innovative capability had a positive influence on performance. Corporate political activity was found to have a strong influence on the relationship between innovative capability and performance. Counter to expectation, industry alliances did not have a significant effect on firm performance. These findings are consistent with theoretical assertions and prior research which show that interaction between internal and external resources impact performance. Specifically, the study revealed that research and development intensity, public/government alliances and cost leadership strategy are important moderators in the relationship between innovative capability and performance. Contrary to expectations, the strength of the influence of competitive strategy on the relationship between innovative capability and performance though positive was weak. However, the joint effect of innovative capability and competitive strategy on performance was slightly greater than the individual effect of innovative capability. The findings suggest that integration of corporate political activity and competitive strategy on the interaction between innovative capability and performance enhances the outcome. Indeed, the empirical analysis suggests that in order to allow innovative efforts to be significant, huge investments have to be made in research and development and the strengthening of public/government alliances. It is concluded that in order to maintain superior performance firms should effectively integrate corporate political activity into their innovative capability and competitive strategies. The study experienced limitations in terms of use of questionnaires only, which are sometimes subject to reporting inaccuracies. Further research recommended that other moderating variables be included in future studies, to further establish additional factors that influence the relationship between innovative capability and performance. The findings and conclusions of the study were discussed in view of implications on theory, policy and practice. On theoretical implications, the study was able to support and extend arguments by resource based view, dynamic capabilities and theories on innovation that firms should continuously evaluate the sustainability of their positions by understanding their market positions from their dynamic core competencies. In terms of policy, the study highlights the need for closer collaboration between government and key stakeholders in the manufacturing sector to increase the sectors competitiveness. For managers the study underscores the need to develop managerial capabilities to effectively manage factors in the firm's external operating environment.

CHAPTER ONE

INTRODUCTION

This chapter provides the background of the study. Theoretical and operational definitions of each of the study variables are discussed and the problem stated. The chapter also contains research objectives and the value of the study.

1.1 Background of the Study

The debate on innovative capability of firms has gained prominence in the 21st Century. Increasingly practitioners and scholars are in agreement that innovative capability is a critical resource that every firm should possess and continuously enhance for its survival (Song et. al., 2011; Bhatnagar, 2006; Cainelli et. al., 2004). This need to have and continuously develop innovative capability is partially attributed to the emergence of knowledge based economy, trade liberalization, globalization and regionally integrated markets which present an additional challenge to the firms - the requirement to innovate (GOK, 2007).

The prominence of innovative capability is not new. From as early as 1938 Schumpeter articulated the linkage between innovation and survival of a firm. According to him innovation is a necessary natural process of the growth of a firm (Amit and Schoemaker, 1993). Every firm should develop new and unique ways to manage this natural process. Firms that fail to innovate would not grow. They would die. Ansoff (1965) also pointed out that in the long run, survival of a firm depends on its ability to innovate and develop new products and processes to effectively address future market needs. Later Lawson and Samson (2001) asserted that firms must innovate not just occasionally but often,

quickly and with a solid success rate. Today, innovation is the battleground for competitiveness and business outcomes. Firms strive to be low-cost producers in industries characterized by highly price-sensitive buyers, few ways to achieve product differentiation, buyers who do not value brand loyalty, large number of buyers with significant bargaining power and suppliers integrating forward (Porter, 1980). Within the context of liberalised markets, firms grapple with legal and regulatory frameworks including national, bilateral, multilateral, regional and global trade arrangements that are formulated and executed through political systems. And Nations and regional economic groupings strive to secure and protect markets for their goods and services, further intensifying competition.

At the national level while both the public and private sectors are keen to ensure that the manufacturing sector and products of Kenya are competitive, issues regarding access to and application of critical resources necessary for production, the cost of labour, cost of critical inputs such as raw materials, industry competitive practices and the purchasing power of consumers continue to engage industry leadership. These issues periodically present unforeseen changes which impact process/ product cost through altering of designs, increased costs of inputs and overall rise in product price effectively inhibiting performance. A major concern for firms therefore is how to integrate and effectively manage activities that address the external political environment in the innovative capability strategy and overall business strategy (Keillor et. al., 2009; Tian et. al., 2009).

At the practical level, the daily activities of managers show that innovative activities interact with several internal and external factors to influence firm performance and affirm the need to continuously develop innovative capability. As Bakar et. al., (2009) contend, the daily activities of management involve the process of strategic change and consolidation of ideas and thoughts that provide systems that filter both intra-firm and environmental signals. If management's general task is to assess changing environmental conditions; and identify and implement new strategies that improve the firm's competitive performance, then management's main responsibility is to identify new ways to manage strategy content, the process of change, and the contexts in which the change occurs for the benefit of the firm (Weber and Polo, 2010; Tian et. al., 2009; Zhilong et. al., 2009). This makes the subject of developing innovative capability; and how to integrate it in the overall competitive strategy and external environmental context predominant in day to day management of organizations (Lawson and Samson, 2001).

Despite an extensive theoretical literature and empirical research on innovative capability, a dominant theory or consistent body of theory on which the literature is anchored remains elusive (Lawson and Samson, 2001). Scholars have investigated various dimensions of innovative capability using diverse theoretical perspectives such as the dynamic capabilities, resource based view and theories on innovation. Although an explicit mention of innovative capability lacks in the dynamic capabilities literature, it is inherent in the approach since the capability to innovate is a key mechanism for organizational growth and renewal. Based on the dynamic capabilities approach, scholars have argued that dynamic capabilities shed light on how creation of new products and

processes that effectively respond to changing market circumstances in a flexible and timely manner enhances performance and is crucial if a firm has to outwit competition (Teece and Pisano, 1994). Scholars who have used dynamic capabilities approach to study innovative capability assert that the approach's argument that flexible and timely adaptation of resources to external environment facilitates learning and technology transfer and provides a key linkage between capabilities and innovative results (Teece, 2009; Helfat et. al., 2007; Barney, 2006). The emphasis by dynamic capabilities that management capabilities and inimitable combinations of resources are critical for superior performance further supports the underlying thesis in innovative capability literature.

In a related perspective, the resource based view regards internal heterogeneous resources and capabilities as the true sources of firm's competitive advantage (Penrose, 1959; Conner and Prahalad, 1996). As a result proponents of the resource based view characterize the firm as a bundle of resources and emphasize that identification and protection of difficult to imitate competencies and resources against imitation is key to superior performance (Teece, 2009). These resources are firm-specific, difficult to copy and are accumulated through long-term continuous learning (Conner and Prahalad, 1996).

Resource based perspective has been used on innovative capability literature based on the argument that firms do not compete on new products, but rather on a deeper factor—the capacity to develop new products (Morgan et. al., 2009). For example, Penrose (1959) suggests that firm growth depends on how managerial resources or services are applied to

create administrative systems and productive processes that exploit available opportunities. According to Moore and Fairhurst, (2003) these abilities should include the process of perceiving and assessing environmental change and its implications for the strategies and the practices of the firm. This view complements the dynamic capabilities argument on the linkage between resources and factors in the external environment. Resource based view is preferred in investigating innovative capability for it brings a systematic way of analyzing the firm's capabilities (Barney, 1991).

Scholars who have used theories on innovation to investigate innovative capability emphasize the need for firms to accurately reflect market needs and leverage on technological advances. As captured by Amit and Schoemaker (1993), the common themes of innovation theory rests on four factors namely: inimitability; accurate reflection of market realities; enabling exploitation of timing characteristics of the relevant industry; and being based on capabilities and technologies that are readily accessible to the firm. This proposition complements both the dynamic capabilities and the resource based view in emphasizing the place of inimitable resources and timely adaptation of capabilities to the industry needs.

Based on the theories on innovation it is argued that development of innovative capabilities comprises several factors which interact among themselves and with factors in the external environment to influence performance outcomes. Many scholars confirm that the ways in which firms apply their inimitable competences and capabilities to transform and reconfigure resources is what causes variance in performance (Morgan et. al., 2009; Sher and Yang, 2005; Figg, 2000; Barney, 1991).

The need for the manufacturing sector of Kenya to develop and sustain innovative capability is critical. This is articulated in the Country's development blueprint, the Kenya Vision 2030, which places a high premium on the sector to facilitate and sustain a double digit economic growth that will steer Kenya to become a middle income country by the year 2030 (GOK 2007). Realization of this vision requires collaboration between the public and private sectors in formulation and implementation of harmonized strategies.

Other contextual issues that necessitate the joint approach include the external shocks arising from the liberalized global market; increased demand to raise revenue; internet revolution which has opened more opportunities to consumers and suppliers thereby increasing competition; weak capital outlays; low levels of innovation; and non-market challenges such as laws and regulations. Formulation and implementation of harmonized winning strategies will benefit from scientifically developed models that optimize the contribution of all sectors towards enhancing the innovative capability of the manufacturing sector.

1.1.1 Innovative Capability

To understand the construct of innovative capability, we first highlight key factors in the definitions of innovation and capabilities as presented in existing literature. Theoretical and scholarly work presents a variety of views on the process of innovation and the factors that create it. The definitions focus on a wide range of factors and suggest a technology-human capital-product link. As a result innovation has been defined from product, process and system perspectives. Scholars who define innovation from a process

perspective regard innovation as a resource transformation procedure and focus on research and development, technological development and technical research. They also focus on the use of activities that incorporate generation, acceptance, and implementation of new ideas, processes, products or services as well as use of new knowledge to create and successfully implement new ideas within an organization (Bakar et. al., 2009; Bhatnagar, 2006; Calantone et. al., 2002). Scholars who define innovation from the system perspective show a keen interest on the methodological and sequential linkages that ensure zero defects on products and place greater emphasis on individuals who create and develop new elements (Egbetokun et. al., 2007; Cainelli et. al., 2004). From the product perspective, innovation is defined with a greater focus on processes innovation, work organization, and innovation in human resource management practices (Yam et. al., 2010; Richard et. al., 2004).

Capabilities, on the other hand, have been defined as the complex bundles of skills and accumulated knowledge that enable firms to coordinate activities, make use of their assets and deploy resources advantageously (Erik et. al., 2011; Erdil et. al., 2010; Grant, 1991). Capabilities are dynamic, non-finite, firm-specific and path dependent processes (Parnell, 2011; Teece et. al., 1997) which are not obtainable in the market place. Capabilities are difficult to copy and are accumulated through long-term, continuous learning (Zander and Kogut, 1995). Capabilities differ from resources in that they cannot be given a monetary value, as can tangible plant and equipment. The concept of innovative capability is a higher order integration capability that reflects the ability to mould and manage multiple capabilities (Fuch et. al., 2000). Its definition is derived from the various perspectives on innovation and capabilities. Persaud (2005) subscribes to the

organization perspective and defines innovative capability as the ability to mould and manage multiple capabilities, accumulate and deploy new knowledge, or recombine existing knowledge to create new products more effectively and efficiently. In his definition he integrates the technology perspective and links the human capability to research and development. Dasgupta and Gupta (2009) adopt the product perspective and regard innovative capability as the ability to mould and manage multiple capabilities, accumulate and deploy new knowledge, or recombine existing knowledge to create new products more effectively and efficiently.

Baark et. al., (2011), on the other hand view innovative capability from a process perspective and define it as resource transformation processes and new learning where combinative capabilities that generate new ideas from existing knowledge flow. This perspective integrates factors in the external and internal environment and asserts that the ways in which resources are aligned is critical for superior performance. While also sharing the process view Guan and Ma, (2003) conceptualize innovative capability as a resource transformation process which reflects the effectiveness with which resources are configured across functional units. Their perspective focuses more on cross functional nature of innovative capability. Guan and Ma, (2003) subsequently define innovative capability in terms of seven components namely; learning, R&D, resource allocation, manufacturing, marketing, organization and strategic planning. According to them learning capability is the capacity to identify, assimilate, and exploit knowledge and competence essential for a firm's success. Research and development capability is the ability to integrate R&D strategy, project implementation, product portfolio management

and R&D expenditure, while resource allocation capability is the ability to mobilize and expand technological, human and financial resources in the innovation process (Lau et. al., 2010; Sher and Yang, 2005). Manufacturing capability refers to the ability to transform R&D results into products that meet market needs (Prajogo et.al, 2007).

Marketing capability indicates the capacity to publicize and sell products on the basis of understanding consumer's current and future needs (Guan and Ma, 2003). And organizing capability is the capacity to constitute a well-established organizational structure and coordinate the work of all activities towards shared objectives (Goh and Ryan, 2003; Photis, 2003). Strategic planning capability is the capacity to identify internal strengths and weaknesses and external opportunities and threats and adopt strategies that can adapt to changes for excelling in the highly competitive environment (Parnell, 2011).

Extant literature also explains innovative capability from internal and external perspectives. From the internal point of view, firm's innovative behavior is explained through general characteristics including firm structure, resources, strategies, and top management team (Bhatnagar, 2006; Cohen and Levinthal, 1990) while from the external perspective the focus is on technology development, advertising and linkages (Prajogo et. al, 2007; Cohen and Levinthal, 1990). Lawson and Samson (2001) propose a definition that encompasses the organization, process and product dimensions and subsequently define innovative capability as the ability to continuously transform knowledge and ideas into new products, processes and systems for the benefit of the firm and its stakeholders.

From the various definitions it is clear that innovative capability is not a separately identifiable construct but a comprehensive set of characteristics that facilitate and support a firm's strategies. These capabilities are firm specific, they are built over time and are composed of reinforcing practices and processes within the firm that interact with factors from outside the firm to influence product, process and system performance (Egbetokun et al., 2007). In this study innovative capability is conceptualized as the ability to assimilate external knowledge and manipulate resources over which a firm has control in unique ways to address future market needs.

Empirical literature on innovative capability development contain numerous frameworks that examine multiple aspects of innovative capability including technology acquisition process and technical innovation audit (Egbetokun et. al., 2007; Wanjau wa Kabecha,, 1999) new product development process (Guan and Ma, 2003), research and development management (Erdil, 2009) and implementation of production innovations (Cainelli et. al., 2004).

Although most previous research has operationalised innovative capability through measures that indicate product- process and system outputs such as internal learning processes, technology management, intensity of research and development, patent counts and citations, counts of new product announcements, and employee development (Erdil, 2009), there is no clear agreement of what the real variables of innovation capability are; indeed there are disagreements (Lawson and Samson, 2001). Bearing in mind the crucial importance of innovative capability and the context in which the study was being

conducted, four crucial variables of innovative capability were considered and focused; technological innovation, research and development intensity, internal innovation processes and employee development. In this study the variables are called innovative capability factors.

1.1.2 Corporate Political Activity

Corporate political activity is a non-market strategy which attempts to improve overall firm performance through partnership with government (Reihben and Schuler, 2006). It is a tool for gaining access to or influencing the political system and a strategy for mitigating non market factors that impact resource availability and utilization (Zhilong et al., 2009). Corporate political activities are tactful approaches that integrate external environment factors into daily organizational decision making process and aim at managing the external legal and regulatory environment (Keillor et. al., 2009). Corporate political activity factors can dictate the failure or success of a firm or the investor himself (Hilman et. al., 2004).

Historically, business-government relationship was viewed from the perspective of government's effects on the process and representative democracy. This has since changed to a more adaptive and mutually accommodative relationship where government's role of putting in place market supporting frameworks are seen to moderate firm productivity (Tian et.al., 2006; Hillman et al., 2004). Successful relationship with government is important because of the critical role that government plays in formulating frameworks and policy regarding; availability and source of labour and capital, patterns and changes of wages and other labour income, labour mobility, and productivity through

human capital (Bigstein et. al., 2010). Several scholars suggest that government's lead role in development of skilled human resources, efficient governance processes, quality infrastructure, and advanced research institutions justify the need for close relationship between industry and government (Zhilong et. al., 2009; Hillman et. al., 2004; Stuart, 2000). Moreover close relationships with factors in the political environment enables firms to proactively control the political environment and reduce political risk and, by extension, improve firm performance (Hilman et. al., 2004; Reihben and Schuler, 1999). A major reason for pursuit of corporate political activity therefore is the need to facilitate useful relations with government (Hillman et. al., 2004).

Keillor et. al., (2009) classify business political behavior into four broad categories of lobbying, public/government alliances, industry alliances and associations, and political inducements and contributions. Hillman et. al., (2004) map out corporate political activity into clear boundaries of resources and capabilities, institutions and political environment. In line with Keillor et. al.'s (2009) classification researchers have operationalised corporate political activity through: membership to groups that engage in lobbying and advocacy on public policy; participation in public policy formulation process and other forms of public/private alliances; maintenance of strong linkages with external stakeholders; government representation in the board; alignment of corporate responsibility programs to government policy; financial and other forms of contributions made to public activities; and ease with which public policy information is accessed (Keillor et. al., 2009; Zhilong et. al., 2009).

However, the corporate political activities in this study only reflect the political factors which form part of the managerial capability domains. This is line with Gulati et. al.'s (2000) assertion that corporate political activity related managerial capabilities are key to successful performance. This study therefore considered and focused on lobbying and advocacy, public/ government alliances and industry alliance dimensions of corporate political activity.

Lobbying involves contact between the firm and decision makers in the political environment initiated through an independent intermediary (Hilman et. al., 2009; Zhilong et. al., 2009). Lobbying can take the form of targeted programs where various groups, such as shareholders, are organized in order to influence policy makers (Stuart, 2000). This type of political activity involves the use of a third-party to represent the firm in the political environment. Public/ government alliances differ from lobbying in that they are long-term and tend to be directed at more strategic goals. While lobbying focuses on a single target, such as a particular piece of legislation, public/government alliances tend to focus on creating and/or managing the overall environment to the benefit of the firm (Baysinger et. al., 1985).

Politically-based industry alliances or associations involve the banding together of at least two firms, which might otherwise be considered to be competitors, in an effort to manage current or potential political risks (Belangar and Edwards, 2006). This happens in circumstances where firms feel that their individual ability to influence the political environment is not substantial enough to achieve the desired result. Forming alliances

with other organizations in the same industry, or having similar objectives, significantly increases the resources which can be brought to bear against threats in the political environment (Keillor et. al., 2009).

1.1.3 Competitive Strategy

Competitive strategies are tactical approaches that organizations use in pursuit of victory and sustainable competitive advantage (Porter, 1980). Different approaches to generic strategies have been advanced including differentiation, cost leadership and focus, elaboration and extension, and customer solution and lock in. Porter (1980) proposes cost leadership; differentiation and focus. Ansoff (1965) classifies strategy into market penetration; new product development; market development; and diversification. Andrews (1971) views strategy as comprising four components of market opportunity; firm competence and resources; managers' personal values and aspirations; and obligations to segments of society other than stockholders. According to Weber and Polo, (2010) Tracy and Wiersema (1995) propose operational excellence, product leadership and customer intimacy; Mintzberg (2001) emphasizes quality, design, support, image and prices and Hax and Wilde's (2001) propose best product, customer solution and systems lock in.

In a study that considered longevity, simplicity, and comprehensiveness of documented strategies Weber and Polo, (2010) concluded that the various approaches complement each other in providing guidance for firms to configure themselves to compete. However, Porter's (1980) approach stands out.

A critical examination of the approaches reveals similarities with emphasis being placed on customer value proposition. This study shares Weber and Polo's (2010) view that the approaches are not fundamentally different from Porter's generic strategy. In his renowned typology, Porter (1980) emphasizes two types of competitive advantage: cost leadership and differentiation which he calls "generic strategies" and a third one which is a sub set of the two, focus. Cost leadership strategy focuses on a firm offering its products at relatively cheaper price than competitors. It involves strategic lowering of production cost by considering elements such as, operations, overheads, cost saving, facilities and financial controls in areas such as R&D, service, sales force, training and development and advertising (Porter, 1980).

Differentiation strategy emphasizes creation of fundamental differences in product dimensions so that buyers perceive a marked contrast between the products of one firm and its rivals. In this strategy the emphasis is on providing a unique product or service (Porter, 1980). Successful differentiation can mean greater product flexibility, greater compatibility, and more features. Indicators of differentiation include patents or other intellectual property, unique technical expertise, talented personnel, innovative processes, major and frequent product innovations, tendency to beat competitors in the marketplace, and the degree of innovative orientation of the company (Prajogo et. al., 2007).

Focus (market segmentation) is narrower in scope than both cost leadership and differentiation. It describes the scope over which a firm should compete based on cost leadership or differentiation. Whichever strategy the firm chooses, depending on its

resources and capabilities, the basis of competition will either be on price (low cost) or differentiation (quality, brand and customization). A narrow focus implies concentrating on a few target markets through product innovation and/or brand marketing while a broad focus entails ascertaining the needs and wants of the mass market and entering it.

Prior research has operationalised competitive strategy through lowering of production cost, number of patents, product quality, use of cost reduction strategies, level of investment in new product development and market focus (Kemal, 2010; Irene and Chow, 2007; Photis, 2003). This study will adopt indicators based on Porter's (1980) and Ansoff's (1965) strategies.

1.1.4 Firm Performance

Firm performance is the organization's ability to attain its goals by using its tangible and intangible resources in an efficient and effective manner (Daft, 2000). Firm performance has been defined through financial measures and operational measures as well as a combination of the two (Eddy et. al., 2010; Field, 2009; Cainelli et. al., 2004; Denzin and Lincoln, 2003; Moore and Fairhurst 2003). The financial paradigm is characterized by use of subjective measures that seek to establish how well a firm can use assets from its primary mode of business to generate revenues. The term therefore, has been used as a general measure of a firm's overall financial health over a given period of time and also to compare similar firms across the same industry or to compare industries or sectors in aggregation. This has been done through indicators such as revenue from operations, operating income or cash flow from operations, and total unit sales.

Operational measures, on the other hand, highlight the use of standard or prescribed indicators such as efficiency, effectiveness and environmental responsibility (Denzin and Lincoln, 2003). Firm performance has therefore been operationalised through; return on assets, return on equity, return on sales, competitive advantage, market share, profit, costs, sales revenue, growth in sales, net income growth, customer satisfaction, capacity utilization, operating income, cash flow, total unit sales, efficiency, effectiveness and environmental and social responsibility (Tian et. al., 2009; Erdil, 2009; Photis, 2003).

Although the two perspectives have been broadly used, they continue to elicit debate on how comprehensive they are when used singularly. Financial measures have been criticized for frequently being unavailable in privately-held firms, being more fully under management control (Prajogo et. al., 2007), and that firms adopt different methods for consolidation of accounts making financial account returns difficult to interpret in the case of multi-industry participation by firms (Gulati et. al., 2000). Financial measures are also faulted for measuring the consequence of past action rather than projecting future performance. Conversely, susceptibility to management bias has been regarded as a major limitation of operational measures.

The complementarity of the two dimensions has been advanced through studies and models. Wernerfelt and Hansen (1989) decomposed the inter-firm variance in profit rates of 60 Fortune 1000 firms, representing both dominant and lesser members of their respective industries into economic and organizational components, and found that both sets of factors are significant indicators of firm performance. Dess and Robinson, (1984) examined the usefulness of subjective performance measures obtained from top

management teams when problems are encountered in obtaining accurate performance data and concluded that in cases where objective data was not easily available, subjective performance measures obtained from top management teams could be used successfully. However, Peng and Luo, (2000) who developed and rigorously tested objective measures through perceptual assessments of senior executives, or secondary data sources, using the two perspectives concluded that they explain different performance outcomes. Kaplan and Norton (1996) also argued in support of use of multiple perspectives and in a bid to resolve the recognized limitations of financial measures developed the concept of Balanced Scorecard (BSC) which in addition to financial indicators also measures performance from three additional perspectives of; the customers, internal business processes and learning and growth.

The BSC paradigm is supported by Richard et. al., (2004) who assert that organizational performance encompasses financial performance, product market performance and shareholder return. Recent studies have found BSC metrics to be effective for controlling corporate strategy, underlining existing problems and addressing the issue of how to continue improving and creating value. BSC also reveals specific perspectives contribution to overall performance enhancement. For example Tracy et. al., (2010) who sought to establish how organizational learning influences strategy and subsequent financial performance found that specific set of knowledge activities impacts strategy choice and is related to BSC performance outcomes. Such findings suggest that application of BSC articulates the links between inputs, processes, and outcomes and is important in guiding system wide strategy.

The BSC is however not without limitations. A study by Rajiv and Mina (2004) which assessed how evaluation of performance of business unit managers depend on strategically linked performance measures of BSC found that performance measures are influenced more by linked than by non-linked measures only when evaluators are provided detailed information about business unit strategies. Evaluators who use BSC have also been found to place more weight on financial category measures (Eddy et. al., 2010). In a bid to improve the BSC further, contemporary scholars observe that since business is a major driver of innovation and sustainability, a strategy based BSC system should provide a way to achieve social and environmental goals alongside financial performance (Rajiv et. al., 2004). Subsequently, proponents of this view have extended BSC to include social and environmental performance in a framework referred to as sustainable balanced scorecard (SBSC) (Balanced Scorecard Institute, 2012; Rajiv et. al., 2004).

Within the context of large firms and manufacturing sector although financial measures seems to be common other scholars support the use of multiple measures. Scholars in support of multiple measures contend that since the primary objective of business is to make profits through efficient and effective systems and structures; both measures are useful indicators on different performance outcomes. Cooper and Schindler, (2003) agree and further posit that accurate performance measurement is indispensable for manufacturing sector and especially large firms because it helps to ascertain the success or failure of the firm and acts as an indicator of sustainable improvement in manufacturing and business activities. Thus, using a single dimension of large firm performance might not give a better result. Researchers in both large firms and

manufacturing firms should therefore consider multiple dimensions of both financial and non-financial methods of measuring firm performance in order to arrive at a better measurement (Sekaran, 2006). Silvia et. al., (2011) justify these further, and assert that due to the arguments about large firm performance measurement on which researchers have taken different stands, authors should use and justify at least two different dimensions of firm performance which they argued to be both financial and non-financial measures.

Results of most research on innovative capability show that not all dimensions of innovative capability impact financial outcomes some influence operational performance (Song et. al., 2007; Simpson et. al., 2006; Wanjau wa Kabecha, 1999). Results also differ depending on the performance measure used (Goh and Ryan, 2003) These findings support use of multiple perspectives in this study to measure performance as advanced by emerging metrics such as the balanced scorecard. Hence, the study adopted both financial and nonfinancial objective measurement of large firm performance. The study used the sustainable balanced scorecard (SBSC) metrics to measure performance.

1.1.5 Manufacturing Sector in Kenya

The manufacturing sector of Kenya comprises more than 700 established enterprises. It is dominated by subsidiaries of multi-national corporations and is largely driven by local, regional and global markets. Key manufacturing sub-sectors include galvanized iron sheets, cement, beer, cigarettes, wheat flour, stationery and grooming products. The bulk of Kenya's manufactured goods (ninety five percent) are basic products such as food, beverages, building materials and basic chemicals. The sector which has progressively

experienced modest expansion over the years makes an important contribution to Kenya's economy employing 254,000 people (13 per cent of total employment) and contributes approximately 15% of the Gross Domestic Product (GOK 2011).

Kenya's long term development strategy (Kenya Vision 2030) identifies the sector as one of the key drivers towards realization of sustainable socio-economic development. The sector is expected to speed transformation of the country into a rapidly industrializing middle income nation by the year 2030 through job creation, generation of foreign exchange and attracting foreign direct investment (GOK, 2007). It is also expected to stimulate agro-processing activities in which special economic clusters and small- and medium- enterprise parks will serve as seed beds for Kenya's industrial take off. However, due to the high cost of inputs, as a result of poor infrastructure and high cost of doing business, prices of locally manufactured products are relatively high. This limits their competitiveness in regional markets and also negatively impacts on capacity utilization. Furthermore, rising levels of poverty, trade liberalization, and slowdown of the economy continue to slow growth in demand of locally manufactured goods, with preference shifting towards relatively cheaper imported products. To reverse this negative trend, the sector has to rethink its strategies to design and produce new products that effectively compete in the local, regional and global arena.

1.1.6 Large Manufacturing Firms

Existing definitions of the size of firms use the terms firm, industry, establishment, business and enterprise interchangeably. And the precise definition of the firm by size varies depending on a number of factors. Most scholars have used two key ways to define the size of a business: the number of employees and the amount of revenues (Eddy et. al.,

2010; Dorrenbacher and Geppert, 2006; Denzin and Lincoln, 2003). The definition is also dependent on the specific industry (Freel and Robson, 2004). The term 'large scale firm' is generic and has been used to refer to various types of industries. Large scale firms are those firms which require huge infrastructure, use heavy machinery and equipment, employ many workers, invest more capital and have an influx of capital assets.

In most contexts all the heavy industries like the iron and steel industry, textile industry, automobile manufacturing industry, production of cement, medicines, oil products, food products, and other electric durables, are categorized as large firms. However in recent years due to the information technology boom and the huge amount of revenue generated by the information technology sector some scholars have included it within the jurisdiction of the large scale industries sector (Egbetokun et. al., 2007). Large firms do a lot of trade and business and contribute to economic development through taxes, and they are typically differentiated.

1.2 Research Problem

A lot of evidence confirms that innovative capability has a positive influence on firm performance. However, while different factors such R&D, technological innovation and internal innovation processes have been found to influence performance to different extents, the results are often inconsistent (Song et. al., 2011; Dasgupta and Gupta, 2009; Cainelli et. al., 2004). As a result some scholars have suggested that all these factors still deserve further attention in order to arrive at a common stand that allows generalization of the research findings (Lau et. al., 2010); Terzvioski and Samson, 2007; Goh and Ryan, 2002).

Similarly, while corporate political activity literature and evidence indicates that firms that have recognizable patterns of political strategy easily access resources, enjoy trade benefits and are able to bend government's behaviour in their favor (Bellangar and Edwards, 2006; Hillman et. al., 2004), researchers have not made any attempt to investigate the relationship between firm specific resources/ capability and the corporate political activities it pursues and how this eventually impacts performance. The concept of corporate political activity has largely been viewed as an external factor and has received little attention in innovative capability strategy literature. As a result firms are unable to identify the appropriate political activity in which to engage in order to enhance their innovative capability. Accordingly, failure by previous research to integrate the external political environment shows the need to investigate the influence of corporate political activity on innovative capability (Keillor et. al., 2009).

Further, although literature suggests that corporate political activity influences the generic strategy that firms employ in pursuit of competitive advantage (Keillor et al., 2009; Baysinger, 1985), little has been done to link the political operating environment and overall competitive strategy to innovative product and process outcomes. Yet, competitive strategy has been noted to be the most research variable that tends to influence the work of researches and therefore cause researchers to have variance in their research findings (Prajogo et. al., 2007). In a similar dimension, previous studies have suggested the need to re-investigate the influence of competitive strategy on other variables including capabilities, external factors, and firm performance (Parnell, 2011; Kemal, 2010; Irene and Chow, 2007).

In Kenya, calls by the Government for the manufacturing sector of Kenya to innovate and create jobs, is the motivating force for this study. According to GOK, (2013) and KIPI, (2013) the sector lags behind in innovation. However players in the manufacturing sector contend that most constraints to innovation arise from legal and regulatory frameworks, competitive practices, industry structure, stringent patenting procedures and high cost of production over which government wields control (GOK, 2013).

Bigsten et. al., (2010) pointed out that it is unfortunate that a country such as Kenya has not given serious attention to enhancing innovative capability of the manufacturing sector which could produce vital results. Lagat et. al., (2011) also asserted that enhancing innovative capability of manufacturing sector in Kenya requires collaboration between government and the private sector, and called for investigation on approaches to facilitate this collaboration. Unfortunately, existing literature do not provide comprehensive guidance on the relationship between corporate political activity, innovative capability and a firm's eventual performance. Little is known about the contribution of political activities on a firm's innovative capability and subsequent performance. Given the challenges of this situation this study sought to establish the influence that corporate political activity and competitive strategy have on a firm's innovative capability and eventual performance.

Hillman et. al., (2004) reviewed the depth to which corporate political activity stream of research has extended and found that no contribution has been made relating to specific firm-level political activities and their impact on innovative capability in the context of

manufacturing firms. In Kenya much less has been done. Relevant literature interrogate concepts such as firm characteristics and strategy (Kiganane et. al., 2012; Mugo et. al., 2012), business environment and strategy implementation (Waweru, 2011), external environment strategy co-alignment (Lagat et. al., 2012; Machuki, 2011), competitive strategy implementation and performance (Waweru, 2008) and core competencies and strategy (Awino, 2007). None of the studies directly focuses on the effect that corporate political activity and competitive strategy have on the relationship between innovative capability and performance of large manufacturing firms.

In addition, despite the large number of studies on the relationship between innovative capability and performance some critical issues remain unresolved. First, most analytical models use singular dimensions of innovative capability as independent variable that causes variation in performance in a linear manner (Song et. al., 2011; Yam et. al., 2010; Song et. al., 200). Such conceptualization ignores a variety of complications arising from unstable and unpredictable environmental. And fail to account for other performance perspectives. Second, most studies have been undertaken in economies which are knowledge and technology oriented where industry is based on sophisticated technology, knowledge innovations and networks and strategic alliances of giant developed enterprises (Yam et. al., 2010; Knight and Cavusgil, 2004; Moore and Fairhurst., 2003). This makes it difficult to infer causal order generated by different context.

The third gap is methodological. Whereas prior researches invoke the resource based view they ignore intangible assets such as external corporate political activity which are relatively resistant to imitation and account for significant differences in financial performance (Silvia et. al., 2011). These are the gaps that the study began to fill.

To address the gaps the study distinguishes the various dimensions of innovative capability and establishes the influence of various innovative capability factors on performance. To address methodological issues the study integrates corporate political activity which is an intangible resource and non market strategy in the conceptual model of the relationship between innovative capability and performance. The study also integrates competitive strategy as a moderator and was undertaken in the context of a developing economy. Thus, the study provides both theoretical and practical contributions to the field of innovative capability of firms. The study answers the question: What is the influence of corporate political activity and competitive strategy on the relationship between innovative capability and firm performance?

1.3 Research Objective

The general objective of the study was to determine the influence that corporate political activity and competitive strategy have on the relationship between innovative capability and performance of large manufacturing firms in Kenya. Specific objectives were to:

- i) Establish the influence of Innovative Capability on Performance of Large Manufacturing Firms in Kenya;

- ii) Establish the influence of Corporate Political Activity on the relationship between Innovative Capability and Performance of Large Manufacturing Firms in Kenya;
- iii) Determine the effect of Competitive Strategy on the relationship between Innovative Capability and Performance of Large Manufacturing Firms in Kenya;
- iv) Determine the effect of Corporate Political Activity on the relationship between Innovative Capability, Competitive Strategy and Performance of Large Manufacturing firms in Kenya; and
- v) Establish the effect of the relationship between Innovative Capability, Corporate Political Activity and Competitive Strategy on Performance of Large Manufacturing Firms in Kenya.

1.4 Value of the Study

The study aimed to establish the nature of relationship that exists between innovative capability, corporate political activity, competitive strategy and firm performance. Understanding this relationship is important for theory development, managerial practice and policy. In terms of theory development the study shows support for the dynamic capabilities approach, resource based view and theories on innovation. By incorporating corporate political activity into innovative capability literature the study shows that it is possible to enrich theoretical postulations in strategic management by incorporating theoretical frameworks from other disciplines such as political sciences. The study confirms existing evidence which show that innovative capability has a positive influence on performance. The study fills the gap in existing literature in innovative capability

literature regarding the influence of the external environment and shows that factors from within and outside the firm interact in complex ways to enhance performance. The study provides new evidence on dynamics and impact of corporate political activity on firm performance and lays foundation for future research agenda.

For managers and practitioners the study deepens understanding on use of corporate political activity in pursuit or defense of competitive advantage. The study shows the important role of corporate political activity and underscores the need to integrate corporate political activity in the innovative capability strategy and competitive strategies of the manufacturing sector. It is shown that it is critical for management to develop capabilities to effectively analyse and manage the political environment. The study sheds light on the extent of influence of corporate political activity in the manufacturing sector and highlights the need to integrate corporate political activity into the overall business strategy, and develop management capability to effectively respond to factors in the political environment.

From a policy perspective the study highlights the need for structured collaboration between government and industry in developing and sustaining industry and national competitiveness. Specifically, efforts aimed at developing general infrastructure and especially infrastructure to enhance the uptake of technology by industry should be prioritized. The study further highlights the need for both government and key players in the manufacturing sector to embrace a proactive approach and foster collaboration that nurtures and exploits innovative capability of the manufacturing sector.

1.5 Structure of the Thesis

This thesis consists of six major chapters. Chapter one presents the introduction and background of the study. Conceptual and operational definitions of the study variables which include; innovative capability, corporate political activity, competitive strategy and firm performance are presented. The chapter highlights the statement of the problem, research objectives and value of the study. The second chapter presents the theoretical framework of the study and reviews empirical literature relating to the major variables. The chapter also sets out the conceptual framework and study hypothesis.

Chapter three presents the philosophical orientation of the study and identifies the research design and methodology adopted for the study. It covers the population of study and data collection methods and highlights the analytical data models. Chapter four provides both descriptive and inferential analysis of the data and results of hypotheses tests. In Chapter five findings are presented and discussed. Chapter six presents a summary of the findings, conclusion, limitations of the study, suggestions for further research and implication on theory, policy and practice.

1.6 Chapter Summary

In this chapter, the background of the study has been presented. The main variables of the study have been introduced, and their theoretical and operational definitions given. The variables are innovative capability, corporate political activity, competitive strategy and firm performance. In line with existing literature it is pointed out that innovative capability is a critical resource that firms should possess and continuously develop for their survival.

It is argued that innovative capability is affected by several factors from within and outside the firm which influence its strength on firm performance. Corporate political activity and competitive strategy are identified from the external and internal environment respectively. In the chapter theoretical and operational definitions of the study variables are also discussed. The context of the study which is the manufacturing sector in Kenya is given and discussed. Arising from theory and evidence the research problem is presented. Finally, the study objectives and value of the study are presented.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter summarizes literature reviewed on the conceptualised relationships of the variables under study. Discussion of the theoretical and empirical relationships is given and a summary of pertinent related empirical findings presented in a matrix. The conceptual framework and proposed model of study are presented at the end of the chapter.

2.2 Theoretical Foundation

The study is anchored on conceptual ideas of the resource based view, dynamic capabilities and theories on innovation. The resource-based view is a business management tool used to determine the strategic resources available to a firm. Resource-based perspective is anchored on the fundamental principle that the basis for competitive advantage of a firm lies primarily in the application of the bundle of resources at the firm's disposal (Wernerfelt, 1984; Rumelt, et.al., 1994; Penrose, 1959). These resources must be valuable to enable a firm employ a value creating strategy to outperform competitors or reduce its own weaknesses (Conner and Prahalad, 1996). Accordingly, the critical determinant of performance differential is the type of resources that the firms possess; one subset of the resources enables the firms to achieve competitive advantage, while another subset leads to superior long-term performance (Grant, 1991). Barney (1991) and Peteraf (1993) emphasize the quality of inimitability of these resources and assert that a resource-based approach to strategic management should focus on developing and protecting costly-to-copy attributes as sources of economic rents and

fundamental drivers of performance and competitive advantage. In addition to being valuable, rare and inimitable, resources that lead to sustainable competitive advantage should be non- substitutable (Barney and Mark, 2006; Barney, 1991).

Resource based view shows there is a vital need to modify and develop resources in order to encounter the future market competition. Kogut and Zander (1992) contend that any industry or market reflects high uncertainty and, in order to survive and stay ahead of competition, new resources become highly necessary. Subsequently an organization that exploits existing business opportunities using the present resources while generating and developing a new set of resources to sustain its competitiveness in the future market environments will outperform competition (Song et al., 2011). Morgan et. al., (2009) agree, and assert that the need to update resources is a major management task since all business environments reflect highly unpredictable market and environmental conditions. Evidence premised on resource based view suggests that firm specific attributes and strategic allocation of resources and development of new ones are key drivers of both strategies and outcomes (Kemal, 2010; Bakar et. al., 2009). Increasingly, resource-based researchers are finding considerable support for the resource based view (Irene and Chow, 2007).

In this study the resource based view is used to investigate how interactions between various firm specific resources lead to variance in performance. In line with the resource based perspective the study built on the assumption that identification and protection of rare and inimitable resources is key to success (Morgan et al., 2009; Hashim et. al.,

2000). The resource based view was preferred as it provides the understanding that certain unique existing resources will result in superior performance and ultimately build a competitive advantage based on the ability of competitors to imitate such resources. Resource based perspective also facilitated examination of how various factors of a firm's innovative capability relate to its corporate political activities and the business strategy it adopts and how these eventually influence performance.

Dynamic capabilities approach is centred on the capacity of an organization to purposely create, extend or modify its resource base (Helfat et. al., 2003). The approach focuses on how senior managers adopt to radical changes in the environment and how firms can maintain high capacity standards to ensure competitive survival. Dynamic capabilities approach emphasizes the need for timely and flexible adaptation of resources to the external environment as a strategy to manage the turbulent business environment. Dynamic capabilities was found to be suitable for a number of reasons; first, it does not have a special focus on technology and considers R&D as one resource among many available to the firm. This facilitated development of a holistic model of organisational innovative capability that could be applied within the context of the study. Second, dynamic capabilities view that innovation process may relate to both the development of new products, new processes, systems or even business models supported analysis of the various performance outcomes. Finally, dynamic capabilities' requirement of asset heterogeneity reflected the expectation that there was no one generic formula of innovative capability. The approach provided a basis for the study to integrate activities of the political operating environment in the overall competitive strategy. Dynamic

capabilities approach was used to simultaneously test variables in the internal and external environment. This made it possible to state uniformities that lied beyond observations (Barreto, 2010; Teece, 2009; Helfat et al., 2007). Theories of innovation helped in understanding the nature of interaction between unit level capabilities, firm level strategies and factors in the external operating environment (Erdil, 2009; Prajogo et al., 2007; Cainelli et al., 2004).

Although the study used resource-based view and dynamic capabilities theories it is acknowledged that they have a number of weaknesses (Priem and Butler, 2001 a; 2001b). First, it is often difficult to identify within a firm which of the many resources, individually or collectively, account for effective performance (Lipman and Rumelt, 1984). Second, it is possible that as the firm is recognised as successful, the resources behind the success are labelled as valuable (Hoopes et. al., 2003). Similarly, the failure of a firm can invariably be attributed to the absence of a specific capability or capabilities (Song et. al., 2002). Third, many resources are complementary, such that it is the system of resources that matters, not the individual component. Fourth, the tracing of the general processes on which capabilities are based is still in formative stages (Morgan, 2000). Without an understanding of the specific activities underlying capabilities, study replication and knowledge development is difficult (Peteraf, 1993). Finally, the value of resources may change over time becoming a core rigidity of the organisation, even though the resource itself has not changed form (Priem and Butler, 2001b).

Based on the resource based view, dynamic capabilities and theories on innovation, a growing body of scholarly work on the relation between innovative capability and performance has been documented (Erdil, 2009; Bhatnagar, 2006; Cainelli et. al., 2004). Empirical literatures lend credence to the theories and suggest that configuration of resources and capabilities that are not transferable and how they are aligned to the realities of firms' competitive market determine how a firm competes (Morgan et. al., 2009).

2.3 Innovative Capability and Firm Performance

In theory the goal of innovative capability is to create, share and repeat the use of knowledge so as to reach an organization's development goals and extend the life of the organization (Eddy et. al., 2010; Cohen and Levinthal, 1990). This goal is even more critical in today's knowledge based economy, where the innovative capability of a firm is viewed as a type of intellectual property that must be jealously safeguarded. Examination on presence and application of various dimensions of innovative capability is beginning to interest researchers and practitioners in various countries (Hashim et. al., 2000). For instance, in Turkey, Erdil (2009) sought to establish the depth of innovative strategies and reported that manufacturing firms in Turkey are progressively competing on technological innovation. In Nigerian, Egbetokun et. al., (2007) observed that although there was poor performance in terms of technological innovation, organizational and marketing innovation were predominant. Sher and Yang (2005) also found that firms in Taiwan had intense investment in R&D to support innovative capability of firms.

Many past studies have documented the positive impact of innovative capability factors on firm performance. Substantial evidence shows that innovative firms are more profitable and valued at a premium by the market share relative to their less innovative counterparts (Figg, 2000). This is supported by anecdotal evidence which show the existence of such a relationship as well. For example, Akio Morita, the founder of Sony attributed the company's success to its ability to innovate (Morita et. al., 1986). In a study that sought to establish the prevalence of innovative capability and whether firms that showed evidence of harnessing innovative capability registered superior performance Irene and Chow (2007) used a sample of 625 firms with a response rate of 42 percent and found that innovative capability had a positive influence on product innovation and innovative performance. Firms that have excellent systems to develop and manage innovative capability are also shown to make effective use of resources and accumulate business management experience which enable them reach organizational goals for innovation (Prajogo et. al., 2009).

Existing literature further indicates that innovative capability contributes to variation in innovative performance (Terziovski and Samson, 2007). Specifically, the capability to create and utilize unique inimitable resources (Goh and Ryan, 2003), ability to learn and continually improve firm's technological capability (Teece et. al., 2009), and new organizational forms that increase the rate of resource accumulation and patent counts (Bakar, 2011) influence innovative performance outcomes in different ways. This conforms to practical level financial and innovative performance indicators of firms that are perceived to lead in innovation such as Apple, Google and 3M.

According to Lau and Yam, (2010), certain factors of innovative capability work jointly to influence performance outcomes. In a study that sought to establish the influence of innovative capability on performance Parnell (2011) found that investment in R&D per se does not enhance performance, rather it is how firms configure their research and development investments with other resources and internal structures that determine the firm's ability to implement their innovation agenda. In related studies where scholars have decomposed the construct of innovative capability to various variables, it has been established that some sources of innovation like internal departments can lead directly to superior performance, while other forms such as those acquired through conferences and competitors, contribute to competitiveness through mediation effects of resource allocation, marketing and organization capabilities (Song et.al, 2011; Simpson et. al., 2006).

Regarding the indirect relationship, choice of organization (Hitt et. al., 1994), organizational mode through which individual's corporate (Conner and Prahalad, 1996) and firms specific absorption capacity (Cohen and Levinthal, 1990) influence efficient production and protection of valuable knowledge that firms apply to business activity leading to innovation and superior performance. Such indirect relationship was earlier suggested by Child, (1972) and Bowen and Wiersema, (1999) who posited that resource allocation patterns underscore the concept of strategic choice and that the links between strategic choice and firm performance and the firms' responses to its competitive environment depend on firm specific characteristics.

Research further shows that the strength of the influence of various factors of innovative capability on performance varies. Richard et al., (2004) in the study cited earlier show that whereas organization capability can improve sales performance and innovation rate, R&D and strategic planning capabilities lead to better product performance while resource allocation and manufacturing capabilities enhance sales performance. Their research established that marketing capability has a positive effect on sales growth.

Although substantial evidence indicates that innovative capability has an overall positive influence on performance, existing literature presents mixed findings in relation to specific factors of innovation capability and specific performance outcomes. Richard et al., (2004) and Sher and Yang (2005) found that innovative capabilities such as R&D and resource allocation are mostly related to return on assets. Erik et. al, (2011) who sought to establish how innovative capability contributes to firm competitive advantage used a different approach and found that resource allocation, marketing and organizing capabilities mediate competitiveness. This supported earlier findings by Parnell (2011) and Prajogo et. al, (2007) who established that competitive strategies mediated this relationship.

Another dimension of the relation between innovative capability and performance is that the correlation may not always be absolutely linear. Some sources of innovation can lead directly to superior performance, while other forms contribute to competitiveness through mediation effects (Song et al., 2011). Variables such as size of the firm, market orientation, choice of organization, organizational mode through which individual's corporate and firms specific absorption capacity intervene in the relationship (Yam et al.,

2010; Morgan et al., 2009; Richard et al., 2004; Conner and Prahalad, 1996; Cohen and Levinthal, 1990). Effective innovation strategy should therefore link strategic planning and organization capabilities that capture unique firm characteristics, influence variation in strategies and combine core capabilities to influence performance outcomes (Baark et al., 2011). Sher and Yang (2005) suggest that it is equally important for a firm to integrate R&D strategy in the broader capability framework and to mobilize, expand and effectively deploy its resources to transform R&D results into products that meet market needs.

In Africa, very little empirical and theoretical research has been undertaken on this relationship. Even then, the little research that has been done focused on investment in technological innovation and how it impacts innovative capability. Results of the few studies suggest that low investment in technological innovation has negatively impacted innovative capability and therefore it is not easy to determine the relationship between innovative capability and firm performance. For example, Wanjau wa Kabecha, (1999) studied technological capability of the microenterprises in Kenya's informal sector and found that low investment in terms of know-how and development of appropriate machinery compromises technological innovation by firms and as such innovative capability cannot be directly linked to firm performance. In a related study Egbetokun, et. al., (2007) assessed the innovation capability of firms in the Cable and Wire Manufacturing Industry in Nigeria and concluded that inspite of strong evidence of organizational and marketing innovation, firm's performance was poor in terms of technological innovation.

While most evidence indicates that innovative capability has a positive influence on performance there are few studies that have established contradictory findings. Some scholars have established that no relationship exists between the two variables. For example, in a study on for-profit organizations in India, Goh and Ryan (2003) found that no relationship existed between learning capability and financial measures of return on equity and return on assets; however, learning capability is strongly related to job satisfaction which may impact performance outcomes. Similarly, in spite of substantial evidence linking strategic planning, new product development projects and better firm performance, a study by Song et al., (2011) which sought to establish whether strategic planning enhances or impedes innovation and firm performance examined the conditions in which strategic planning increases or decreases the number of new product development projects and found that formal strategic planning impedes, not enhances, the number of NPD projects.

In conclusion, the predominant view in prior research is that capabilities are positively associated with performance (Day 1994). However, capabilities can turn into core rigidities and might even have a negative influence on some aspects of firm performance (Kemal, 2010; Photis, 2003). The review shows that little consensus has been developed as to the exact relation between innovative capability and performance (Egbetokun, et al., 2007; Goh and Ryan, 2002; Wanjau wa Kabecha, 1999). This lack of consensus has led to divergent conclusions on the influence that distinct dimensions of innovative capability have on performance outcomes (Hilman et al., 2004; Richard et al., 2004) and suggest the need for further investigation of this relationship.

2.4 Innovative Capability, Corporate Political Activity and Firm Performance

From the above the effect and importance of innovative capability on firm performance is acknowledged. It is noted that the influence of innovative capability on performance is affected by various variables from both within and outside the firms. Further, organizations do not exist in a vacuum; rather organizations are part of a complex system where internal and external factors interact to influence business outcomes. In this context innovative capability of firms is affected by factors in the external environment, which cause variances to occur in the activities aimed at developing innovative capability and enhancing performance.

Theoretical arguments show that corporate political activity is a critical intangible resource that mitigates factors from the external environment and that various reasons motivate firms to engage in corporate political activity. Some of the motivators include the need to manage environmental volatility, simple use of innovative techniques, and concern over the degree of competition in the industry. Waweru (2008) asserts that the more volatile the market is the quicker firms will adopt new approaches to establish a competitive advantage. Stuart (2000) also contends that whenever the competition becomes more volatile, or if the size of the competition they face increases, firms tend to have a higher inclination to select new or innovative ways. Other reasons why firms use political strategies are; to gain access to or influence the political system, to influence the political process, and to dominate politics surrounding trade protection in order to capture benefits or postpone high downsizing costs (Hilman et al., 2004). Evidence shows that use of corporate political activity by firms is predominant. In a study that explored the depth to which corporate political activity has been adopted by U. S. firms Keillor et. al.,

(2009) found that firms use varying forms of corporate political activities depending on the intended outcome. In the U.S context the most predominant forms of corporate political activity include lobbying and advocacy, contributions and industry alliances and networks. A related study by Dorrenbacher and Gepper, (2006) of the Japanese automobile industry confirmed predominance of corporate political activity and showed that business networks are the most predominant form. Their study showed that frequent exchanges of technical information and other knowledge among network members with close connections was related to potential benefits of information and technology sharing.

Zhilong et. al., (2009) examined the content and performance of political strategies in china's highly institutionalized firms and found that there are indeed recognizable patterns of political strategy most of which are bent toward accommodation rather than confrontation or defiance. According to them firms establish and sustain relations, partnerships and alliances with other organizations and government to mitigate external environment turbulence, influence the political process and dominate politics surrounding trade protection in order to capture benefits or postpone high downsizing costs. Such firm level activities when effectively employed shed light on the relationship between a firm's market and nonmarket strategies and enable firms to leverage their competitive advantages and, by extension, improve overall performance (Keillor et. al., 2009; Reihben and Schuller, 2006; Peng and Luo, 2000). Andrews's et. al., (2006) observe that increasingly strategic management is getting concerned with management of the non-market environment. This interest is partially necessitated by the complexity of the emerging business environment where multiple stakeholders influence decision making

process of the firm. This transformation of business enterprises into participatory institutions necessitates the institutionalization and development of corporate political approaches to manage the varying interests (Ansoff and McDonnell 1990). In relation to this a predominant school of thought holds that as changes occur in the business environment, it is imperative that firms develop capability to analyze, manage and cope with environmental changes to sustain meaningful organizational performance (Hilman et. al., 2004).

Practicing managers agree that the external business environment is complex and consequently, the strategic management of the political environment should be institutionalized to systematically explore and examine future changes in the environment. Hamel and Prahalad, (1994) agree and contend that if strategic management is concerned with industry association to environment and adaptation to the changing environment, then the strategic management of political posture is a pertinent subject and must be investigated (Keillor et. al., 2009; Reihben and Schuler, 2006). A similar view was earlier expressed by Ansoff, (1965) who postulates that when the strategic behavior and organizational capability of the firm matches the environmental conditions performance is optimized. The underlying argument in these assertions is that since managers are responsible for formulating and implementing strategies for the success of their firms it is important that they embrace corporate political activities that produce public policy outcomes that are favorable to the firm's economic success (Barney, 2006; Ansoff and McDonnell, 1990). This requires the development of political management skill which is a critical component of success in the political context of the business.

A study by Ansoff and Sullivan (1993) shows that multiple industries support the basic postulation that management of the external political environment is important and managerial skills and capabilities should be developed for corporate political response. This suggestion is supported by the practical reality that while business organizations have well-established processes to develop and implement the profit making activities pro-actively (strategic management literature) the nonmarket strategies are mostly reactive and intrusive for corporate managers (Keillor et. al., 2004). Moreover, since corporate management success is measured by the accomplishments in the market side there is limited incentive to engage in the nonmarket side, which perhaps provides an explanation to the development of agency theories as a viable alternative to nonmarket corporate needs (Hitt et. al., 2000, Gulati et. al., 2000).

Bhatnagar (2006) suggested that since nonmarket issues are critical to the performance of the firm, managers should take responsibility for developing, formulating and implementing political strategies that facilitate the creation of favorable rules to the firm. Several authors concur on the need to develop managerial political capabilities that include lobbying, grassroots activities, coalition building, testimony, political entrepreneurship, electoral support, communication and public advocacy and judicial strategies (Tian et. al., 2009; Zhilong et. al., 2009; Peng and Luo, 2000).

The positive impact of political strategies on innovation can be traced back to the potential of inter organizational collaboration to facilitate knowledge sharing and interactive learning processes among participating firms (Hillman et. al., 2004; Hillman et. al., 1999). This potential is strongly dependent on the overall network structure which is largely reflected in structural characteristics such as intensity, density, non-redundancy, reciprocity and multiplicity (Hilman et. al., 2004; Gulati et. al., 2003).

According to Hillman et. al., (2004) technical connections, as well as inter-personal communications, facilitate efficient information flow which, in turn, leads to emerging innovative ideas and opportunities. Business networks established through corporate political activities also facilitate knowledge sharing and interactive learning processes and influence strategies on innovative capability (Reihben and Schuler, 2006). Belangar and Edwards (2006) share the view that within industry alliance networks, firms share technical information and engineering know-how, thereby gaining competitive advantage. Lau et. al., (2001) also show that external factors can assign boundaries to innovative firms and innovators decisions while on the other hand provide opportunities from the environment. Keillor et. al., (2005) concluded that business networks impact firms' innovation because embedded structures can shape sophisticated economic action. This view was earlier advanced by Reihben and Schuler, (1999) who contended that learning and innovation, and social relations are based on structural attributes, which comprises trust, information transfer, and joint problem-solving arrangements.

Public/ government alliances is another corporate political activity dimension that increases access to resources and extraction of benefits that interact with innovative capability to influence outcomes (Dorrenbacher and Geppert (2006). Tian et al.'s, (2009) study confirms this postulation and further suggests that the nature of firm's resources and its ability to extract benefits or bend government's behavior in its favour are related to the political strategies it adopts. A similar conclusion was drawn by Photis (2003) who established that environmentally proactive organizations which improve their relationships with regulatory agencies enjoy tranquility. Stuart, (2000) also established that organizations with large and innovative partners perform better than comparable firms that lack such partners. Other aspects of corporate political activity that have been examined such as, innovative alliances, board membership composition, lobbying and advocacy and nature of corporate social responsibility activities, also confirm that firms derive certain benefits from corporate political activity (Zhilong, 2009; Hilman et. al., 2004).

According to Photis (2003) corporate political activity is most likely to play a vital role in resource application and other areas of capability development. Malina and Selto (2001) agree and show that corporate political activities such as industry alliances have a very vital role to play in determination of the failure or success of innovative firms. This proposition is supported by results of studies by Hashim et. al., (2000) who found that corporate political activities assisted export firms to achieve a positive result, and George et al., (2010) who reported the positive effect of corporate political activities on the performance of banks.

Arguably, innovative capability is an indispensable factor of manufacturing activities and performance (Morgan et. al., 2009). However, the inconsistent findings in the respective studies have led to suggestions for further investigation on both effect and moderating role of corporate political activity most especially in the relationship between resource utilization and firm performance (Erik et al., 2007; Shenkar, 2001). For instance, in Nigeria, Ogundele (2007) has called for the inclusion of corporate political activity in the development of innovative competitiveness of large firms. According to him such an investigation will further strengthen the relationship between innovative capability and performance and make it more directional.

Reihben and Schuler, (2006) also argue that since innovative capability of organizations is a type of knowledge accumulation where external knowledge is absorbed or internal knowledge enhanced to enable firm's improve their innovation capability, it is necessary that organizations have an appropriate method of selecting, obtaining, expanding and storing external knowledge. As such firms, policy makers and business owners should not consider innovative capability alone but also corporate political activity and its factors which then strengthen the effectiveness.

Furthermore, in order for organizations to properly demonstrate their good performance and technique of innovative capability management they must design a method of managing the external political environment (Tian et. al., 2009). Belangar and Edwards (2006), Keillor et. al., (2005) and Baysinger (1985) are also categorical that external factors predict and significantly affect firm performance as well as development of

innovative capability of any organization or country. Subsequently Keillor et. al., (2005) conclude that any study within the field of innovative capability without the consideration of external factors should be considered incomplete and invalid. Therefore, in this study it is argued that it is not only important for manufacturers and policy makers to consider innovative capability and performance as separate factors but that integrating and aligning these factors with corporate political activity would strengthen the effectiveness of innovative capability factors in predicting firm performance. In this case, it is expected that corporate political activity would make the impact of innovative capability on firm performance more effective and significant.

2.5 Innovative Capability, Competitive Strategy and Firm Performance

A lot of studies on competitive strategy have focused on its linear relation to performance. However, increasingly, resource-based researchers are finding considerable support for the association between creation and application of innovative capabilities and competitive strategies. Numerous researches indicate that an innovative capability strategy that is aligned to the overall competitive strategy results in products and processes with positive efficiency (Erdil et. al., 2010; Erdil, 2009; Andrews et. al., 2006).

Guan and Ma, (2003) emphasize that innovative capability strategy-competitive strategy fit can result in enhanced performance outcomes. Figge (2000) further asserts that aside from the fact that firms can reach their performance goals through competitive strategy, innovative capability enhances the effectiveness of the strategy by sharing capabilities especially R&D outcomes within the firm thereby affecting the adoption of systems to manage competitive strategies. This makes innovative capability a basic element of

product and process innovation which if aligned to competitive strategies can actually enhance innovative performance (Kemal, 2010). Many studies support the hypothesis that competitive strategies have a positive impact on firm performance (Parnell, 2011; Teece, 2009; Irene and Chow, 2007). Specifically the magnitude of market orientation and strategies that firms pursue has been found to have a significant influence on firm performance (Abdullah et al., 2009). In a study on the relationship between competitive strategies and performance in ship management, Photis (2003) established a positive relationship between strategies that firms pursue and their performance, with the strongest influence being achieving economies of scale, differentiation and market focus and analysis. He also established that high performance firms were likely to pursue combination of generic strategies rather than pursuing them in isolation.

Several studies show support for the use of combination strategies. For example, Song et al., (2011) examined how the interaction of strategic plan quality and implementation capability impacts performance at financial service firms and found that banks convert competitive methods in a way that conforms to a cost leadership, differentiation, or focus generic strategy type. Parnell, (2011) found that low cost-differentiation combination strategy is associated with high performance in strategic groups whose businesses possess strong management and technology capabilities, Prajogo et al., (2007) found that cost-differentiation strategy is the strongest predictor for both product and process innovation across countries, while Waweru (2008) found that growth oriented strategies are associated with increased innovativeness and that innovation is associated with greater firm profitability than diversification.

Although, Kemal (2010) who considered value chain activities in Gaziantep carpeting industrial cluster did not find a significant relationship between competitive strategies and firm performance, his study suggested that to improve firm performance, competitive strategies should be used consistently and cost and differentiation strategies implemented simultaneously. Similar conclusions were drawn by Abdullah et.al (2009). This shows that there is a significant performance advantage associated with combination strategies.

The little research that has been done on the value of competitive strategy as a moderator in the relationship between innovative capability and performance indicate that competitive strategy moderates the relationship. Irene and Chow (2007) found that the scope of vertical integration moderates the relationship between technological capability and firm's innovative performance. Parnell (2011) found that choice of diversification strategy systematically affects R&D intensity and that differentiation strategy is a predictor of process and product innovation. In a study on innovative capability-strategy linkage Egbetokun et. al., (2007) found that the scope of technological capability moderates the relationship between vertical integration and firm's innovative performance and that vertical integration decision per se does not affect firm's innovative performance directly. A related study by Hitt et al., (1997) established that international diversification is positively related to R&D intensity but the interaction with product diversification is negative. Abdullah et. al., (2009) found that specific competitive strategy with specific sourcing strategy would generate better organizational performance and that cost leadership strategy that is mediated by make strategy generates better performance than other types of association and conversely the relationship between differentiation strategy

and organizational performance mediated by buy strategy, have superior performance than other type of association. A related study by Hashim et. al., (2000), on a sample of 97 Public Health Education Institutes depicts a significant link between differentiation strategies and performance with a spectrum of organizational capabilities influencing the institution's choice of strategy. This shows that firms need not focus on only one strategy; pursuit of multiple strategies may enhance performance outcomes.

In a study that explored the relationships between strategic capabilities, firm's innovation and the performance of the service firms Knight and Cavusgil (2004) suggested that innovative activity should be integrated into managerial considerations, and that it is a critical process for firm performance. Their study suggested that a firm's strategy underlies its theory of how to compete in the market successfully. Therefore, in order to obtain an effective operation among the mechanisms of the innovative capability, it is not only necessary to emphasize the adaptability between innovative capability and the overall competitive strategy, but also to shape an innovative capability framework for firms to implement innovation, so that the real functional effect of innovative capability can be fully obtained (Vazquez et. al., 2001). Thus, the variances among competitive strategies will affect the correlation between innovative capability and performance.

Evidence further shows that the relationship between competitive strategy and performance depends on the geographies that the firm operates in. Abdullah et. al., (2009) studied sixteen segments of high-tech industries in the US and EU and found that

US firms that adopted product differentiation, low cost, and focus had superior performance than others while in Europe only the low cost firms outperformed the others. To conclude, while implementation of strategy is critical to firm success, most innovative capability-performance models inadequately emphasize the interaction effects of competitive strategy in the relationship (Baark, 2011). This lack of emphasis is significant as formulation and successful implementation of an innovative capability strategy requires cross functional synergy for it to translate into superior performance (Bakar et. al., 2009; Fuchs et. al., 2000).

2.6 Innovative Capability, Corporate Political Activity, Competitive Strategy and Firm Performance

Literature review reveals existence of different patterns of relationships between the variables under study. From the review, it is clear that substantive evidence supports the postulation that innovative capability positively affects performance. The review also reveals that corporate political activity and competitive strategies impact the way resources are acquired and configured and subsequent performance. Majority of the studies support theoretical frameworks on which the studies are anchored. Results on the effect of the various factors suggest that several other internal and external factors interact with innovative capability to either enhance or inhibit performance (Bullinger et. al., 2007, Egbetokun et al., 2007).

Literature on innovative capability and performance acknowledge that factors from the external environment interact with resources/ capabilities to affect performance (Egbetokun et. al., 2007; Sher and Yang, 2005; Richard et. al., 2004). Similarly, the

competitive strategies that firms adopt are influenced by external environment factors which have a potential to inhibit the effectiveness of the strategies and ultimate performance. Hashim et. al., (2000) in a study that examined the general relationships between competitive strategies, environment and business performance of manufacturing firms in Malaysia found that there are different patterns of relationships between competitive strategy and performance. They suggested that a possible explanation of the performance differential were external factors.

Even though few studies have investigated the moderating role corporate political activity and competitive strategy on the relationship between other variables and performance (Parnell, 2011; Irene and Chow, 2007), no study has examined the moderating effect of corporate political activity and competitive strategy on the relation of innovative capability and performance. This is a major gap in literature for failure to account for the political operational environment suggests that firms operate in a vacuum. According to Bornadi et al., (2005) optimal growth of the firm involves a balance between exploitation of existing resources, development of new ones (financial, physical, human, technological and organizational) and strengthening strategic associations and linkages. Vazquez et. al., (2001) argue that any study in the field of innovative capability which does not regard other variables such as environment should be regarded as insufficient and incomplete. Supporting this view Zahra (2000) notes that the various factors, forces and actors that make up the external environment could be problems or opportunities to the innovators and can effectively determine or influence the innovative capability and performance of the firms. Bigstein et. al., (2010) also show that external factors could

directly or indirectly affect or influence the innovative decisions thereby also affecting the performance. This study therefore developed an integrated model of the relationship between innovative capability and performance that takes into account internal strategies and external corporate political factors.

2.7 Summary of Knowledge Gaps

Most literature on the study variables is derived from Asian and European context (Zhilong et al., 2009; Sher and Yang, 2005; Hilman et al., 2004; Richard et al., 2004; Stuart, 2000). Few studies have been undertaken in Africa (Lagat et al., 2009; Egbetokun et al., 2007). Existing studies on innovative capability have focused on; identification of the nature of innovative activities pursued by firms (Richard et al., 2004), empirical linkage between strategy and innovation (Erdil et al., 2010), and the relationship between distinctive capabilities and strategic thrust of firms (Yang and Sher, 2005). Most studies on corporate political activity have examined the prevalence of corporate political activity among firms and the influence of corporate political activity on financial performance (Stuart, 2000; Hilman et al., 2004; Richard et al., 2004; Reihben and Schuler, 1999).

Although corporate political activity studies link firm's ability to effectively configure resources to the political operating environment, they have not integrated innovative capability in their frameworks. Similarly while most literature on innovative capability find support for the linkage between resource configuration patterns and firms financial success (Lau et al., 2010; Erdil, 2009) they conceptualize a linear relationship with performance thus failing to account for the political operating environment. This study

sought to extend existing literature by integrating the political operating environment in innovative capability research. The study conceptualised a relationship between a firm's innovative capability and the corporate political activity it integrates in its overall competitive strategy with eventual performance. Some pertinent studies related to the variables of the study are summarized in Table 2.1. Gaps emerging out of the studies and contribution that this study intends to make are also highlighted.

Table 2.1: Knowledge Gaps

Author(s)	Study	Methodology Used	Main Findings	Gaps	Focus of Study
Kiganane, Bwisa and Kihoro (2012)	Assessing influence of firm characteristics on the effect of mobile phone services on firm performance: A case of Thika town in Kenya	The cross sectional survey study was done among 130 top managers in the telephone industry. PLS method was used to test the data	Firm characteristics have no statistical significant influence on the effect of mobile phone services on performance	Ignores the political operational environment of the firm	Integrates corporate political activity in the study on the effect of strategy implementation on performance
Mugo, Wanjau and Ayodo (2012)	An investigation into competitive intelligence practices and their effect on profitability of firms in the banking industry: A case of Equity Bank	The study was conducted using cross sectional survey method. 250 questionnaires were administered to managers from the banking sector. ANOVA was adopted to test 8 hypotheses developed for the study	For greater profitability of Banks in Kenya, the competitive intelligence practices that should be applied are mainly product differentiation strategies, market intelligence, technology intelligence and strategic alliance	Ignores the political operational environment of the firm	Integrates corporate political activity in the study on the effect of strategy implementation on performance
Waweru (2011)	Comparative analysis of competitive strategy implementation	The cross sectional survey was done among top managers of private firms, Data was tested using ANOVA	No significant difference between the level of strategy implementation achieved by any pair set of three strategies	Does not integrate the political operating environment	Regards competitive strategy as a moderator in deployment of capabilities

Table 2 .1 cont...

Erdil (2009)	The relationship between market orientation, firm innovativeness and innovative performance	The study was done through a cross sectional survey where 59 top managers in technology innovation firms participated. Data was tested using an integrative model	An innovation strategy targeted at consumers and continuous R & D activities are positively related to knowledge management usage by innovative firms	Does not integrate the political operating environment	Integrate external political environment in the study on innovative capabilities and performance
Zhilong et al., (2009)	Corporate political activity, institutional determinism and political strategies: An empirical investigation.	The study was conducted using cross sectional survey method. 350 questionnaires were administered to managers from the manufacturing sector. ANOVA was used to test the hypothesis.	Manufacturing firms had recognizable patterns of political strategy, most of which are bent toward accommodation rather than confrontation or defiance The strategies identified were found to be related to the firms' ability to extract benefits or bend the government's behaviour in their favour	Does not examine how the relationship between political strategies and firm available resources impact performance	Links resources/ capabilities with political activities and eventual performance
Waweru (2008)	Competitive strategy implementation and its effect on performance of large private sector firms in Kenya	The cross sectional survey study was done among 130 top managers of large private manufacturing firms	Factors that underlie sustainable competitive advantage include provision of strategic fit in use of hard and soft implementation armaments and organizational strategic variables	Excludes competitive strategy and external environment factors as integral parts of business strategy	Integrate corporate political activity in the study on the effect of strategy implementation on performance

Table 2.1 cont...

Egbetokun, Siyanbola and Adeniyi (2007)	Assessment of innovation capability in the cable and wire manufacturing industry in Nigeria: A case study approach	The cross sectional survey was done among 69 top managers of Nigeria Cable and Wire manufacturing industry. PLS was used to test the hypothesis	Nigeria firm's performance is poor in terms of technological innovation. However, there is evidence of organisational and marketing innovation as well as significant benefits derived from industry association	Ignores the political operational environment of the firm	Integrate corporate political activity in the study on the effect of strategy implementation on performance
Prajogo, Laosirihongthong, Sohal and, Sakun (2007)	Manufacturing strategies and innovation performance in newly industrialised countries industrial management and data systems	The cross sectional survey was done among top management of Turkey's industrial sector. Data was tested using ANOVA	Differentiation strategy is shown to be the strongest predictor for both product and process innovation across countries	Links capability to competitive strategy but ignores the political environment	Extends the study to include corporate political activity
Sher and Yang (2005)	The effects of innovative capability and R&D clustering on firm performance: the evidence of; Taiwan's semiconductor industry	The cross sectional survey was done among top management in Taiwan's semiconductor industry. Data was tested using an integrated model.	Innovative capabilities are mostly positively related to performance as measured by returns on assets Specifically, higher R&D intensity and higher R&D manpower are found to be predictors of improved firm performance	Does not account for political operational environment	Extends the study to include corporate political activity

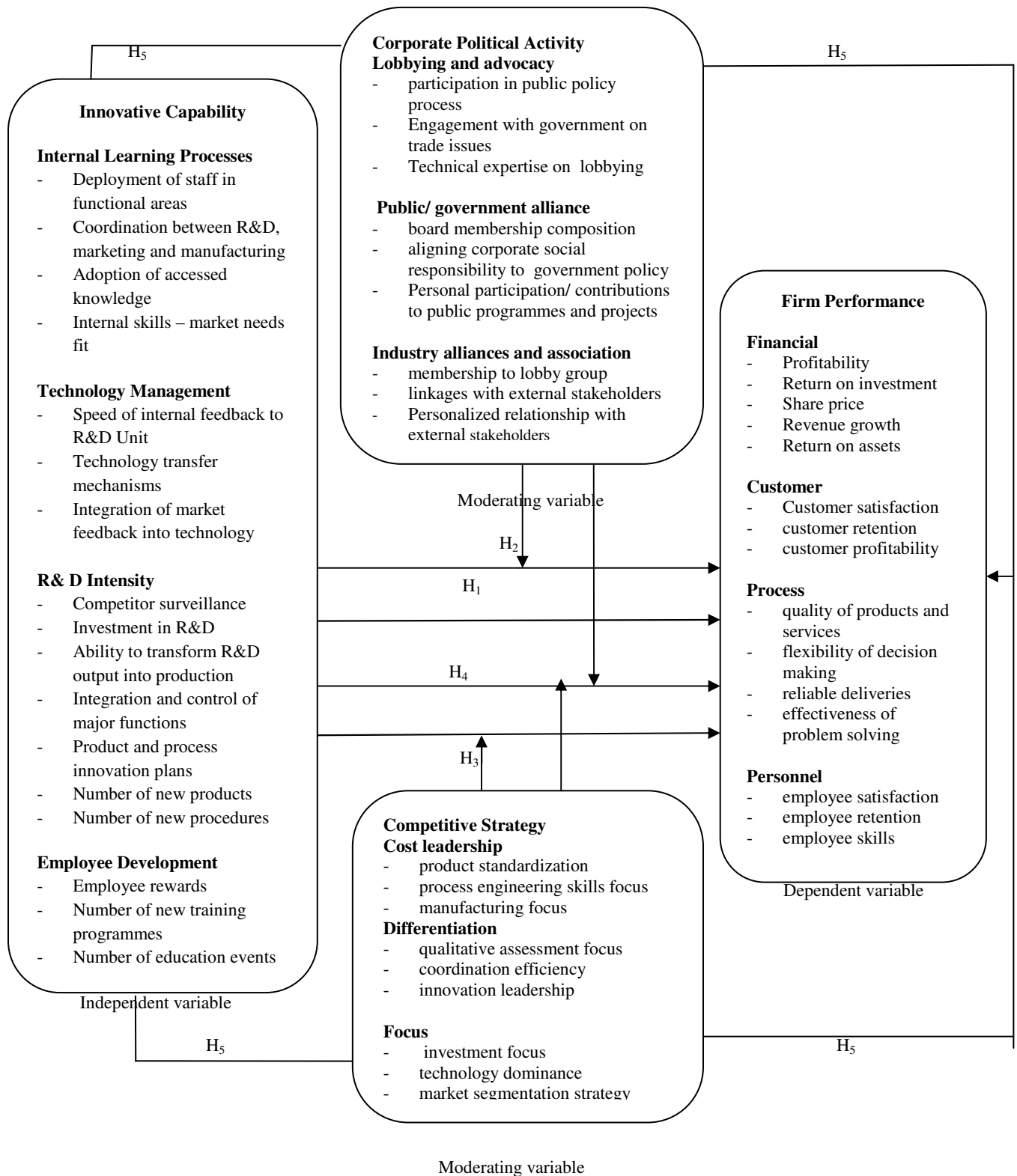
Source: Various previous studies

2.8 Conceptual Framework

From literature review it is conceptualized that there is a relationship between innovative capability and firm performance. This relationship may be linear. However, factors in the external environment interact with the intended relationship. These factors can be managed through targeted corporate political activity that are conceived when the innovative capability strategy is being developed. Through corporate political activity external events take on an internal strategic significance and facilitate formulation of the appropriate innovative capability strategy.

Competitive strategy affects the direction and strength of the relationship, and specifies the appropriate conditions for operation of innovative capability. In this sense competitive strategy moderates the original relationship. A firm's innovative capability interacts with its corporate political activity and competitive strategy to influence performance outcomes. The conceptualised relationship is depicted in the framework presented in Figure 2.1.

Figure 2.1 Conceptual Model



2.9 Conceptual Hypotheses

Contributions inspired by resource-based theory and dynamic capabilities suggest that firm growth is centered on effective application of resources/ abilities to create systems and processes that exploit available opportunities (Teece et al., 1997; Penrose, 2009). Amit and Schoemaker (1993) distinguish resources from capabilities. They argue that resources are tradable and non-specific to the firm, while capabilities, such as implicit processes to transfer knowledge within the firm, are firm-specific and are used to engage the resources within the firm.

Following Amit and Schoemaker's (1993) distinction it is argued that a business strategy that focuses on enhancing efficient configuration of external resources with internal capabilities improves overall firm performance. At the intersection of internal characteristics (capabilities and strategies) and performance are corporate political activities that are partially exogenous to them. It is also argued that while innovative capability impacts performance, this interaction is not linear. External factors interact with this relationship. This interaction needs to be managed. This is done through integration of corporate political activity in the overall innovative capability strategy. Corporate political activity interacts with internal and external resources to facilitate identification and adoption of appropriate innovative capability configurations. The conceptual framework leads to the following hypotheses:

- H₁:** Innovative capability has a significant influence on performance of large manufacturing firms in Kenya;

- H₂:** Corporate political activity has a significant influence on the relationship between innovative capability and performance of large manufacturing firms in Kenya;
- H₃:** Competitive strategy has a significant influence on the relationship between innovative capability and performance of large manufacturing firms in Kenya;
- H₄:** Corporate political activity has a significant effect on the relationship between innovative capability, competitive strategy and performance of large manufacturing firms in Kenya;
- H₅:** The relationship between innovative capability, corporate political activity and competitive strategy has a significant effect on performance of large manufacturing firms in Kenya.

Specific interactions among innovative capability and competitive strategy are linked individually and with firm performance as well. The innovative capability-competitive strategy interaction facilitates both internal coordination and alignment to demands of the external environment. In an empirical sense, these arguments suggest that innovative capability will have an impact on performance in addition to their joint effects with corporate political activity and competitive strategy.

2.10 Chapter Summary

This chapter reviews existing theoretical and empirical literature on key variables of the study. The theoretical perspectives on which the study is anchored (resource based view, dynamic capabilities and theories on innovation) have been presented and discussed. It is argued that the theoretical perspectives are complementary and that the unique resources that firms possess ought to be aligned to the dynamic factors in the external operating environment to facilitate faster and sustainable innovation.

From the empirical literature it is revealed that most previous researchers established that innovative capability has a consistent positive effect on performance. Most of the previous studies were also undertaken using the cross sectional survey methodology. Based on existing evidence and theory, knowledge existing gaps which the study sought to address were identified and discussed. From the conclusion a framework indicating the conceptualized linkages between innovative capability, corporate political activity, competitive strategy and performance was developed. And, the research hypotheses stated.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the philosophical orientation of the study. The study design, population of interest that was investigated and the sample of the study are presented. Methods used to collect data and analysis techniques are also given. The chapter concludes by presenting a summary of how the study variables were operationalised and how each of the hypotheses was tested.

3.2 Research Philosophy

Research philosophy describes the perceptions, beliefs and assumptions of how we get to know what we know. This study was guided by the positivist orientation for conducting research. According to positivists the primary role of research is to test theories in a scientific, objective, quantifiable and value-free way and provide material for development of laws (Denzin and Lincoln, 2003). Positivists assume that what truly happens in organisations can only be discovered through categorization and scientific measurement of the behaviour of people and systems (Denzin and Lincoln, 2003). Dess and Robinson (2006) observe that the central tenet of positivism is that researchers can take a 'scientific' perspective when observing social behaviour, and as such an objective analysis is possible. Research based on a positivist philosophy is based on deductive theorising, where a number of propositions are generated for testing, through an empirical verification process (Mugenda and Mugenda, 2003). Since a positivist study favours the

use of quantitative methods to analyse large-scale phenomena, considerable data are often required (Blaikie, 1993). Inherent in this overall approach is the view that it is possible to measure social behaviour independent of context and that social phenomena are ‘things’ that can be viewed objectively (Field, 2009). In this case natural science methods can be applied to study social reality to identify relationships and facts that can be generalised to the population. While positivists believe that objective inferences and conclusions can be reached if the researcher is objective and disregards emotions, human behavior naturally comes with emotions and there is no guarantee that objectivity can be attained at all times (Bhatnagar, 2006). Other scholars have also asserted that failure to account for unexplained phenomena and the belief that everything is quantifiable makes positivism inflexible; this eliminates lateral thinking and limits creativity in research (Bowen and Wiersema, 1998).

The study adopted the positivist orientation for three reasons. One, the study aimed to collect and analyse data on the study variables in an objective and value free way. The responses and perceptions of the respondents were to be analysed to discern observable patterns which could be explained through scientific hypothesis tests. Two, the study aimed to use existing theories to test the general laws and generate findings that could be generalised to the population. The reality that existed was determined independent of the researchers’ theoretical beliefs. Finally, a growing body of literature on both corporate political activities and innovative capability adopt the positivist orientation (Parnell, 2011; Keillor et al, 2009; Richard et al, 2004).

3.3 Research Design

Cross sectional research design was adopted for the study. Cross sectional design was found to be appropriate for various reasons. First, the overall objective of the study was to establish whether significant associations existed among the study variables. Secondly, information provided was for large populations and third, the research question required collection of information on firm-specific resources which are intangible in nature. Mugenda and Mugenda (2003) and Denzin and Lincoln (2003) assert that the above three are good reasons for using cross sectional design. The other reason is that a growing body of existing literature on innovative capability that has used cross sectional design have found it to be appropriate. For example, Egbetokun et al., (2007) and Sher and Yang, (2005) used cross sectional survey research to establish the relationship between innovative capability and performance of manufacturing industries in Nigeria and Taiwan respectively and concluded that the design facilitates identification of associations and determination of prevalence.

Lagat et al., (2012) used cross sectional design to establish the effect of business environment on the relationship between market orientation and performance and found that the design maximized completeness of key data. In view of the aforementioned research problem and the selected research philosophy, cross sectional survey was found to be the most suitable design for achieving the objectives of the study.

3.4 Population of the Study

All the large manufacturing firms in Kenya were used as the first stage sampling firms. Six hundred and twenty seven manufacturing firms who are members of Kenya Association of Manufacturers (KAM 2013), constituted the sampling frame. Among these firms, one hundred and twenty nine were selected as population of the study through stratified random sampling. The sample firms were drawn from all the sub sectors of the manufacturing sector. The unit of analysis was individual firms. Manufacturing firms were chosen because of their potential for wealth and employment creation and the need for them to enhance their innovative capability (KIP1 2013). The target population was firms that employ over 100 employees and whose capital expenditure exceeded Kshs 50 million per annum which by Kenyan classification are large (KAM, 2013).

Large firms were chosen for three reasons. First, the firms' contribution to the national economy made it more likely that they were already collaborating with government in public policy formulation and could have integrated political activity in their strategy mix. Large firms were also likely to have been in operation long enough to provide reliable information on performance trends for the period 2009 to 2013.

3.5 Sampling

Initial screening of KAM, (2013) directory was done to establish firms that employ over 100 staff and whose capital expenditure exceeds Kshs 50 million a year. Since performance trends were measured over five years, only firms that had been in existence

over the five year period were included. Thus, the sample was purposive. According to Blaike (1993) at least 10 percent sample of the population is acceptable method of selecting samples in cross sectional surveys. Sixty three (63) large firms were therefore considered adequate. Appropriate sample size was determined by estimated percentage prevalence of the population of interest, desired level of confidence and the acceptable margin of error (Sekaran, 2000). The sample size was calculated using the following formula (Kate, 2006).

$$N = \frac{t^2 \times p(1-p)}{m^2}$$

Where:

n = required sample size

t = confidence level at 95% (standard value of 1.96)

p = estimated percentage prevalence of the population of interest – 10%

m = margin of error at 5% (standard value of 0.05)

Therefore, the sample size (n) for this study will be:

$$n = \frac{1.96^2 \times 0.1(1-0.1)}{0.05^2}$$

$$n = \frac{3.8416 \times .09}{.0025}$$

$$n = \frac{.345}{.0025}$$

$$n = 138.30 = 138$$

The sample was stratified into twelve key sectors/strata as in Table 3.1. Proportionate sampling was done to pick the required number of respondents from each stratum. This gave every firm an equal opportunity to participate in the study.

Table 3.1: Sampling Strata

Large-Scale Manufacturing Sectors/Strata	Strata Population N	Proportionate Sampling $P_n = N / \text{Total Popn} * \text{Sample}$
Building, Construction and Mining	15	3
Food, Beverages and Tobacco	154	33
Chemical and Allied	71	16
Energy, Electrical and Electronics	43	10
Plastics and Rubber	66	14
Textile and Apparels	68	15
Timber, Wood Products and Furniture	26	6
Pharmaceutical and Medical Equipment	32	7
Metal and Allied	62	14
Leather Products and Footwear	8	2
Motor Vehicle Assembly and Accessories	22	5
Paper and Paperboard	60	13
Total	627	138

Source: Author, 2014

3.6 Data Collection

Primary and secondary data were collected for the study. Primary data was collected using a questionnaire as the main tool (see Appendix I). The respondents were top management in the finance, R&D, strategy and operations departments.

The questionnaire items required respondents to indicate their responses on a 5 point Likert type extent scale. The questionnaire was prepared in consultation with experts for the purpose of content validity and reliability. The questionnaire was pretested and revised before being used to collect required data. Secondary data from archival records such as annual reports and financial statements was used to confirm performance trends of the firms for the last five years (2009-2013). Since the unit of analysis was the firm one questionnaire was completed by each firm.

3.7 Operationalisation of Research Variables

In this research, there are four major variables; innovative capability, corporate political activity, competitive strategy and firm performance. Study dimensions for measurement and categorization of the variables were done according to existing literature. A 17-item scale based on the innovative capability audit model developed by Guan and Ma (2003) was used to measure innovative capability. Similar scales were used by Yam et al. (2004) and Lau et al., (2010). The indicators are; identification of opportunities for improvement, adoption of accessed knowledge into daily activities, understanding and matching core capabilities with market needs, quality of feedbacks from manufacturing to design and engineering, effectiveness of mechanisms for transferring technology from research to product development, use of market and customer feedback in innovative process, phased human resource programming, selection of key personnel from each functional department into the innovative process, provision of steady capital supplement in innovative activities, ability of manufacturing department to transform R&D output

into production, effective application of advanced manufacturing methods, capability of manufacturing personnel, maintenance of close relationship with major customers, knowledge of different market segments, integration and control of major functions in the firm, coordination and cooperation between R&D, marketing and manufacturing departments, ability to handle multiple innovative projects in parallel, adaptation and responsiveness to the external environment, clarity and measurability of road map of new product and process, clarity of organizational goals, and capability to identify internal strengths and weaknesses.

Three aspects of competitive strategy based on Porters (1980) typology, of cost leadership, differentiation and focus were adopted and measured by a 9 item scale modified from scales developed and tested by Abdullah et al., (2009). These include product standardization, attention to special aptitudes for process engineering, product design, focus on qualitative assessment and incentives, frequency of development and introduction of major product innovations, levels of investment in aptitudes of special application and interest to the company area of operation, level of firm's dominance in technology and engineering for its leading product, and use of market segmentation strategy. For corporate political activity, a 9 item scale modified from Hillman et al.'s, (2004) model was adopted. Zhilong, Hafsi and Wu (2009) used the same measures and found reliability coefficient of 0.71, 0.77, and 0.87 for personal service, association, and reporting research findings respectively. These indicators are; personal relationships with key external stakeholders, government representation in the board, discussion of trade

issues with government, alignment of corporate social responsibility activities to government policy, participation in public policy formulation, value attached to membership to industry and advocacy group, sharing of research and legal reports with key external stakeholders, and ease of access to public information.

Lastly, a 14 item scale was used to indicate the extent of perceived overall firm performance. These self reported measures were developed by Balanced Scorecard Institute (2011). Firm performance is operationalised through customer focus, internal business processes, financial efficiency, and learning and growth. Summary of how the variables were operationalised is presented in Table 3.2.

Table 3.2: Operationalisation of Study Variables

VARIABLE	NATURE	INDICATORS	MEASURE	SCALE	ITEMS
Innovative capability	Independent variable	Internal learning processes, intensity of R&D, patent counts and citations, technology management, staff employed in R&D, employee training budget, number of new products/processes developed (Guan and Ma, 2003).	5 point Likert type scale	Ordered	Items 1-17
Competitive strategy	Mediating variable	First to market, R&D investment, product quality, focus on cost reduction, product investment choices, industry competitive practices, market segmentation strategy (Abdullah et al., 2009).	5 point Likert type scale	Ordered	Item 18-26
Corporate political activity	Moderating variable	Membership to industry and advocacy group, relationships with key external stakeholders, board membership composition, discussion of trade issues with government, aligning corporate social responsibility to national priority, technical expertise on lobbying, adoption of group lobbying strategy, contributions to public programmes/projects (Hillman et al.'s 2004)	5 point Likert type scale	Ordered	Item 27-35
Firm performance	Dependent variable	Assets, sales, market capitation, customer satisfaction and retention, customer profitability, waste reduction, energy efficiency, new partnerships, employee satisfaction, employee skills and employee retention (Balanced Scorecard Institute, 2011)	Nominal secondary data	Ordered	Item 36- 49

Source: Author, 2014

3.8 Data Analysis

Descriptive statistics such as mean scores, standard deviations, percentages, cross tabulation and frequency distribution were computed to describe the characteristics of the variables of the study. Inferential statistics were used to establish the nature and magnitude of the relationships between the variables and to test the hypothesized relationships. Pearson's Product Moment Coefficient Correlation (r) and multivariate techniques such as multiple regression analysis and hierarchical regression analysis were applied.

To determine the extent to which variation in the dependent variable was explained by the independent variables, coefficient of determination (R^2) whose value lies between 0 and 1 was calculated. The closer R^2 is to 1 the better the fit of the regression line to the actual data (Field, 2009). When $R^2=1$, there is a perfect fit since the variation is accounted for by the regression model. Correlation analysis was used to test for significant association between the constructs. The analysis also described how the response variables were distributed. Regression analyses were used to find the extent to which study variables and their integration explain the variance in firm performance. First the links were established across all firms. Main effect model was used to define the effect of innovative capability on firm performance. F-test was used to establish if the interaction makes a statistically significant contribution to explaining variance in firm performance beyond that explained by the main effects. The estimated model for Overall Firm Performance (FP) was therefore expressed as follows.

$$\text{Overall Firm Performance (FP)} = \beta_0 + \beta_1 IC + \beta_2 CPA + \beta_3 CS + \beta_4 + \dots \varepsilon_i$$

Where;

FP is the dependent variable (Overall Firm Performance) and is a linear function of β_0 , IC, CPA, CS, plus ε_i

β_{0k} is the regression constant or intercept

β_{1-3} are the regression coefficients or change induced in firm performance (dependent variable) by each independent variable

IC is innovative capability of the firm

CPA is corporate political activity

CS is firms' competitive strategy

ε_i is a random variable, error term that accounts for the variability in FP that cannot be explained by the linear effect of the i predictor variables.

The linear model was used because the concept of corporate political activity which is a combination of ideas about the structure, instruments and policy objectives is not well formed (Zhilong, 2009). Factor analysis procedure was used to reduce the set of correlated variables to few conceptually meaningful and independent factors that can be used to establish and measure study variables. To establish the effect of the moderating and intervening variables on the relationship between the independent and dependent variables a hierarchical multiple regression analysis was conducted using the stepwise method. Each variable was entered sequentially and its value assessed. Variables that added value to the model were retained while those that did not contribute significantly were dropped.

Table 3.3: Tests of Hypotheses, Analytical Models and Interpretation of Results

HYPOTHESES	OBJECTIVES	TYPE OF ANALYSIS	ANALYTICAL MODEL	INTERPRETATION OF RESULTS
Hypothesis 1: Innovative capability has a significant influence on firm performance	To establish the influence of innovative capability on performance of large manufacturing firms in Kenya	Regression and correlation analysis	<i>Overall Firm Performance</i> $FP = \beta_0 + IC_1 + \dots + \varepsilon_i$	R^2 (r) is the non mediated or direct effect (r-r') is the mediated or indirect effect If (r') is zero when the mediator is included in the model, then the relationship is entirely mediated. If however, the absolute size of the direct effect between the independent variable and the dependent variable is reduced after controlling for the mediator variable, but the direct effect is still significantly different from zero, the mediation effect is partial (Mackinon et al, 1995). Change in the Beta coefficient when the moderator variable is introduced into the relationship between innovative capability and firm performance confirms moderating effect of the term
Hypothesis 2: Corporate political activity has a significant influence on the relationship between innovative capability and performance of large manufacturing firms	To determine the effect of corporate political activity on the relationship between innovative capability and performance of large manufacturing firms in Kenya	Regression and correlation analysis	<i>Overall Firm Performance</i> $FP_2 = \beta_{02} + IC_2 + CPA_1 + \dots + \varepsilon_i$	R^2 (r) is the non mediated or direct effect (r-r') is the mediated or indirect effect If (r') is zero when the mediator is included in the model, then the relationship is entirely mediated. If however, the absolute size of the direct effect between the independent variable and the dependent variable is reduced after controlling for the mediator variable, but the direct effect is still significantly different from zero, the mediation effect is partial (Mackinon et al, 1995). Change in the Beta coefficient when the moderator variable is introduced into the relationship between innovative capability and firm performance confirms moderating effect of the term

Table 3.3 cont...

HYPOTHESES	OBJECTIVES	TYPE ANALYSIS	ANALYTICAL MODEL	INTERPRETATION OF RESULTS
<p>Hypothesis 3: Competitive strategy has a significant effect on the relationship between innovative capability and performance of large manufacturing firms</p>	<p>To establish the influence of competitive strategy on the relationship between innovative capability and performance of large manufacturing firms in Kenya</p>	<p>Regression and correlation analysis</p>	<p><i>Overall Firm Performance</i> $FP_3 = \beta_{03} + IC_3 + CS_1 + \dots + \varepsilon_i$</p>	<p>R^2 (r) is the non mediated or direct effect (r-r') is the mediated or indirect effect If (r') is zero when the mediator is included in the model, then the relationship is entirely mediated. If however, the absolute size of the direct effect between the independent variable and the dependent variable is reduced after controlling for the mediator variable, but the direct effect is still significantly different from zero, the mediation effect is partial (Mackinon et al, 1995). Change in the Beta coefficient when the moderator variable is introduced into the relationship between innovative capability and firm performance confirms moderating effect of the term</p>
<p>Hypothesis 4: Corporate political activity has a significant effect on the relationship between innovative capability, competitive strategy and firm performance of large manufacturing firms</p>	<p>To determine the effect of corporate political activity on the relationship between innovative capability, competitive strategy and performance of large manufacturing firms in Kenya</p>	<p>Regression and correlation analysis</p>	<p><i>Overall Firm Performance</i> $FP_4 = \beta_{04} + IC_4 + CPA_3 + \dots + \varepsilon_i$</p>	<p>R^2 (r) is the non mediated or direct effect (r-r') is the mediated or indirect effect If (r') is zero when the mediator is included in the model, then the relationship is entirely mediated. If however, the absolute size of the direct effect between the independent variable and the dependent variable is reduced after controlling for the mediator variable, but the direct effect is still significantly different from zero, the mediation effect is partial (Mackinon et al, 1995). Change in the Beta coefficient when the moderator variable is introduced into the relationship between innovative capability and firm performance confirms moderating effect of the term</p>

Table 3.3 cont...

HYPOTHESES	OBJECTIVES	TYPE ANALYSIS	ANALYTICAL MODEL	INTERPRETATION OF RESULTS
<p>Hypothesis 5: The effect of innovative capability, corporate political activity and competitive strategy on firm performance is significant</p>	<p>To establish if the effect of innovative capability, corporate political activity and competitive strategy on firm performance is significant</p>	<p>Regression and correlation analysis Regression and correlation analysis</p>	<p><i>Overall Firm Performance</i> $FP_5 = \beta_0 + IC_4 + CS_3 + CPA_4 + \dots + \varepsilon_i$</p>	<p>R^2 (r) is the non mediated or direct effect (r-r') is the mediated or indirect effect If (r') is zero when the mediator is included in the model, then the relationship is entirely mediated. If however, the absolute size of the direct effect between the independent variable and the dependent variable is reduced after controlling for the mediator variable, but the direct effect is still significantly different from zero, the mediation effect is partial (Mackinon et al, 1995). Change in the Beta coefficient when the moderator variable is introduced into the relationship between innovative capability and firm performance</p>

Source: Author, 2014

3.9 Chapter Summary

This chapter introduces positivism as the philosophical foundation of the research. The fundamental postulations of positivism are discussed and the reasons why the positivist orientation was chosen presented. The research design adopted for the study is cross sectional survey. Cross sectional survey is described and the reasons why it was chosen presented. The population of study is given as all the manufacturing firms.

The chapter shows how the sample size was determined and describes the data collection method. Operationalisation of the study variables and the various tests that the researcher used to test the fitness of data are also shown. A tabulated summary of the objectives, corresponding hypotheses, and analytical models are presented at the end of the chapter.

CHAPTER FOUR

DATA ANALYSIS AND RESULTS

4.1 Introduction

This chapter provides the detailed result of analysis on the data collected from the target manufacturing firms in August- September, 2014. Descriptive and inferential statistical analyses are presented and findings discussed within the framework of the research questions, objectives and hypotheses. Correlations for the variables and regression models are also presented to show the relationships that are used for subsequent discussions.

Statistics necessary for rigorous hypotheses tests are presented. Results of the various types of tests that the stated hypotheses were subjected to are shown and each hypothesis analysed to arrive at conclusions that inform the research recommendations. Tables and meanings of each result against the research hypothesis are presented to enable the acceptance or rejection of the hypotheses.

4.2 Response Rate

Out of the 627 manufacturing firms listed in the KAM Directory (2013), 138 were sampled for the study. Of these, 129 participated in the study. However out of the 129 questionnaires received 17 were not analysed since they had significant levels of missing information. As a result 112 questionnaires were considered usable for the study. The remaining cases accounted for 81 percent of the respondents. This represented an adequate response rate for the precision and confidence required in the study. This response rate is comparable to previous local studies. For example Awino (2007) had a response rate of 78 percent and Egbetokun et. al., (2007) had a response rate of 77.5 percent. Related studies

from Hong Kong by Erik et. al., (2011) and Lau et. al., (2010) had response rates of 34 percent and 42 percent respectively. A possible explanation of the variance in response rate is that whereas the local studies used the drop and pick method, Erik et. al., (2011) and Lau et. al., (2010) used mailing system which requires several follow ups (Denzin and Lincoln, 2003).

4.3 Profile of the Firms

The research was designed to capture some of the attributes of the firms which have been established to impact performance. These include category of the firms, their structure, ownership, age and number of employees. Findings on these attributes are discussed in subsequent sections and their distribution in the data collected presented in tables and figures.

4.3.1 Distribution of the Firms by Sector

In this study the firms were classified into sectors as per KAM Directory (2013). This data was considered useful since previous research shows that the sector from which a firm was drawn has an impact on its innovation (Abreu et.al, 2007). Accordingly respondent firms were required to indicate the category to which they belonged. Summary statistics of how the firms were distributed is presented in Table 4.1.

Table 4 .1: Distribution of the respondent firms by sector

Sector	Frequency	Percentage
Food, Beverages and Tobacco	38	33.92
Chemical and Allied	18	16.07
Energy, Electrical and Electronics	9	8.03
Paper and Paperboard	9	8.03
Metal and Allied	8	7.14
Textile and Apparels	7	6.25
Plastics and Rubber	6	5.35
Pharmaceutical and Medical Equipment	5	4.46
Timber, Wood Products and Furniture	4	3.57
Motor Vehicle Assembly and Accessories	3	2.67
Building and Construction	3	2.67
Leather Products and Footwear	2	1.78
Total	112	100.0

Source: Author, 2014

The summary statistics show that data was collected from all categories of firms in the manufacturing sector and is therefore fairly representative of the sector. As shown in Table 4.1 food and beverages sector was the predominant sector in this study accounting for 33.92 percent followed by the chemical and allied sector which accounted for 16.07 percent. The energy, electrical and electronics and paper and paperboard sectors each accounted for 8.03 percent. The four sectors represented 58 percent of the sample. This response rate conforms to expectation since the four sectors engage in production of goods that have a very limited range of diversification and as such innovation in the products that the sectors specialize in is likely to be low with greater focus being placed on processes innovation. Study results may therefore be more reflective of process innovative capability.

4.3.2 Distribution by Category, Structure and Ownership

The firms surveyed in this study are categorized as incorporated, limited or general partnership. In Kenya owners of companies that are registered as general are open to incur liabilities that may extend to the owner. Owners of companies categorized as limited liability are not held liable for failures of the firm (KIPPRA, 2013). As shown in Table 4.2 most of the manufacturing firms (ninety five percent) are categorized as limited, 3.6 percent incorporated, while only 1 percent fall under the general partnership category. This shows that liability of most of the manufacturing firms in Kenya is limited to what they have invested or guaranteed to the company. A possible explanation of this type of distribution is that investors prefer to register their firms as limited liabilities to cushion themselves from any unforeseen liability in the manufacturing sector where inherent risks investment are high.

Table 4.2: Distribution of the respondent firms by category

Category	Frequency	Percentage
Incorporated	4	3.6
Limited	107	95.5
General Partnership	1	.9
Total	112	100.0

Source: Author, 2014

Respondent firms were further requested to show whether all their offices were located in Kenya, or if they had branches outside Kenya. Inclusion of this item was based on Pearce and Robinson's (2002) assertion that the structure of a firm is the means through which interdependent parts of the firm are harmonized in order to ensure effectiveness. Andrews et.al, (2006) also contend that the structure and ownership of a firm affects the choice of competitive strategy and overall decision making. Summary statistics of structure of the respondent firms is presented in Tables 4.3 (a).

Table 4.3 (a): Distribution of firms by structure

Structure of Firm	Frequency	Percentage
All office in Kenya	76	67.9
HQ in Kenya then branches	32	28.6
Other	4	3.6
Total	112	100.0

Source: Author, 2014

From the summary statistics in Table 4.3 (a), two things stand out. First most manufacturing firms have all their offices in Kenya. A possible explanation is that characteristics of the operating environment such as location and cost of labour are conducive for private investment in the manufacturing sector. Alternatively, policy and tariff incentives promote business development (Kenya National Industrialization Policy, 2011). Second, a small number of firms had expanded to have branches outside Kenya which shows that most of the manufacturing firms are yet to adopt expansion strategies.

Ownership of the firms was classified as private or public. Table 4.3 (b) shows that 91.1 percent of the firms were private and only 8.9 percent were public. This shows that within the respondent firms individual variations in the strategies is minimized or regulated (Bakar et. al., 2009). This was expected given the public policy orientation in Kenya minimizes public investment in productive sectors and instead focuses on government providing an enabling environment for private sector to thrive (Bigsten et. al., 2010).

Table 4.3 (b): Distribution of firms by ownership

Ownership of the Firm	Frequency	Percentage
Private	102	91.1
Public	10	8.9
Total	112	100.0

Source: Author, 2014

4.3.3 Distribution by Age

A firms' age is recognized as a symbol of greater experience hence the older the firm, the higher the chances that it has elaborate structures and has built up tangible and substantial financial, human and physical resources. The age of the firm is generally expected to influence the practices within the firm (Hashim et. al., 2000). Participant firms were categorized by age in six ranges of 10 year period of 1969 and before, 1970-1979, 1980-1989, 1990- 1999, 2000-2009 and 2010 and after.

Table 4.4: Distribution of respondent firms by age

Age of Firm	Frequency	Percentage
1969 and before	30	26.8
1970-1979	25	22.3
1980-1989	24	21.4
1990-1999	14	12.5
2000-2009	12	10.7
2010 and after	2	1.8
Total	107	95.5
Missing	5	4.5
Total	112	100.0

Source: Author, 2014

The results in Table 4.4 show that most of the sampled firms have been in operation for a long time. From the descriptive statistics, it is clear that before 1989, there was an almost uniform growth in the number of new entrants a decade. This reduced by almost half in the next two successive decades showing a gradual decline in the number of new entrants into the manufacturing sector. A possible explanation is that the liberalized markets have exposed local firms to unprecedented competition which made local products less attractive to consumers leading to the death or relocation of some firms (Bigstein et. al. 2010). For example the influx of counterfeit dry cell into the Kenyan market led the

Eveready dry cell manufacturing company, which had been in operation since 1970, to change its business model from production to import and distribution. It is also possible that the high cost of production has significantly reduced the profit margins thereby making some firms, such as Colgate Palmolive (Kenya) to relocate to other destinations where production cost is relatively cheaper (GOK, 2011a).

4.3.4 Distribution by Number of Employees

In this study respondents were asked to indicate the number of employees in their firms. Previous studies show that large firms enjoy size related benefits such as strong capital outlays and creditworthiness and hence may access benefits that are otherwise inaccessible to small firms (Hashim et. al., 2000). Large firms are also more likely to have sufficient qualified staff with adequate experience to coordinate cross functional innovative capability activities. Smaller firms on the other hand are more likely to face resource constraints and thus may be less involved in innovative activities (Hashim et. al., 2000).

Table 4.5 (a): Number of employees in respondent firms

Number of Employees	Frequency	Percentage
50 and below	17	15.2
51-100	17	15.2
101-250	30	26.8
251-500	22	19.6
501-1000	12	10.7
1001 plus	10	8.9
Total	108	96.4
Missing	4	3.6
Total	112	100.0

Source: Author, 2014

As shown in Table 4. 5 (a) 70 percent of the firms employed over 100 staff. This shows that using the criteria of number of employees most of the respondent firms are categorized as large by Kenyan definition (KAM, 2013). These firms make meaningful contribution to economic growth of the country through job and employment creation and in 2012 the sector made a contribution of 9.2 percent to the Kenyan GDP (KIPPRA, 2013).

Regarding the number of employees per sector analysis of findings indicate that the biggest employers in the manufacturing sector are the food and beverages sector, followed by textile and apparels; and plastic and rubber sectors as shown in Table 4.5 (b).

Table 4.5 (b): Number of employees per sector in the respondent firms

Sector	Number of Employees					
	1001 +	501-1000	251-500	101-250	51-100	50 and below
Food, Beverages and Tobacco	6	13	12	7		
Chemical and Allied		7	6	5		
Energy, Electrical and Electronics			2	2	5	
Paper and Paperboard		3	2		4	
Metal and Allied				1	4	3
Textile and Apparels	1	1	4	1		
Plastics and Rubber	2	4				
Pharmaceutical and Medical Equipment					1	4
Timber, Wood Products and Furniture		4		4		
Motor Vehicle Assembly and Accessories						3
Building and Construction				2	1	
Leather Products and Footwear			1	1		
TOTAL	9	28	27	23	15	10

Source: Author, 2014

This is not surprising given the three sectors engage in mass production of goods that are for day to day use by consumers and are not highly differentiated thus they are assured of a ready market for their products. The firms that employ below fifty staff are in sectors that focus on assembly of plants and machinery which are produced from different locations.

4.3.5 Distribution by Position held by respondent Employees

Targeted respondents for the study were top management. Respondents were therefore requested to indicate the positions they held in the firms. Top management were targeted because they are expected to have better knowledge of the strategic direction and overall competitive strategies that the firm pursues (Zhilong et. al., 2009). Top management are also likely to be actively engaged in corporate political activity and are best placed to observe and report on the nature of interaction between the external operating environment and the overall company-wide strategy (Reihben and Schuler, 2009).

Table 4.6: Employees by position held

Position held by respondent	Frequency	Percentage
Clerical	9	8.0
Secretary/Admin Assistant	33	29.5
Management	65	58.03
Total	107	95.5
Missing	5	4.5
Total	112	100.0

Source: Author, 2014

The results in Table 4.6 show that 58 percent of the respondents were in the management position which indicates that the data collected is fairly representative of the employees who have a better understanding of issues regarding corporate political activity, strategy and firm performance (Goh and Ryan, 2002).

4.3.6 Distribution by Length of time in current Firm

The length of stay of top management in an organization enhances or inhibits performance (Dorrenbacher and Geppert, 2006). In the manufacturing sector, generally the turnover of top management is high (Moore and Fairhurst, 2003). Respondents were requested to indicate the duration of their stay in the current firms at the time of the study.

Table 4.7: Distribution by length of time in current firm

Length of time in current firm	Frequency	Percentage
2 Years and below	28	25.0
3-5 Years	29	25.9
6-8 Years	19	17.0
9 Years and above	34	30.4
Total	110	98.2
Missing	2	1.8
Total	112	100.0

Source: Author, 2014

Table 4.7 shows that respondents had been in their current firms for periods ranging from below 2 years to over 9 years. Although 34 percent of the respondents had been in their firms for over nine years the findings generally support previous evidence that the turnover of managers in the private sector is high (Moore and Fairhurst, 2003).

4.4 Normality Tests

According to Field (2009), multicollinearity exists when there is a strong correlation between two or more predictors in a regression model. And poses a problem only for multiple regression and not on simple regression. Tests for normality of data were undertaken. The probability-probability plots (P-P plots) were used for visual test of normality of data. Other tests included Durbin-Watson test that tests for serial correlation

between errors in regression models. Durbin-Watson test is useful in assessing the assumption of independence of errors. The Kaiser-Meyer-Olkin measure of sampling adequacy (KMO) was calculated for the variables. The data registered a KMO value of .728. According to Field (2009), a KMO value of 0.7 to 0.8 is considered good score for analysis as far as the sample size and the data distribution is concerned.

Table 4.8: Normality Tests

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.728
Bartlett's Test of Sphericity	Approx. Chi-Square	2816.970
	Df	1176
	Sig.	.000

Source: Author, 2014

4.5 Validity and Reliability Tests

In this study, four major constructs were considered: innovative capability, corporate political activity, competitive strategy and firm performance. Eventually, a 56-item questionnaire was designed for the study. Among these 56 questionnaire items, 17 items were chosen to characterize innovative capability; 9 items were selected for corporate political activity; 9 items were chosen to analyze competitive strategy; and 14 items characterized firm performance. The data was subjected to various tests before analysis.

4.5.1 Validity Tests

Content validity was ensured through expert judgment, extended literature search and adoption of items of the survey instrument from existing literature. Every operational definition and measurement within this research is based on past opinions and scientific practices, and the measuring scales are taken from the relevant literature. A small scale

pilot study was carried out with the initial draft of the questionnaire in August 2014 with a convenience sample of 10 managers of manufacturing firms in Nairobi region. The managers were asked to comment on the clarity, readability and appropriateness of the items. The results of the pilot study were used to amend the questionnaire and make it concise. Thus, the data within this research has content reliability. The questionnaire was executed using real life interview.

4.5.2 Reliability Tests

The reliability of a test or measure refers to its degree of stability, consistency and repeatability. A test is considered reliable if we get the same result repeatedly. Reliability was analysed based on suggestions by Sekaran (2000) that corrected Item-Total correlation should not be smaller than 0.5; and Field (2009) that Cronbach's Alpha α should not be smaller than 0.7.

To verify the dimensionality and reliability of each research construct, purification processes were conducted, including principal component factor analysis, item-to-total correlation analysis, and Cronbach's analysis. Cronbach's alpha was used to measure the consistency of the scores obtained, and how consistent they were from one administration of an instrument to another and from one set of items to another. Alpha whose coefficient ranges from zero (no internal consistency) to one (complete internal consistency), was the key statistic in measuring reliability.

Table 4.9 a: Reliability Statistics for all the items

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.930	.918	56

Source: Author, 2014

As shown in Table 4.9 a, the Cronbach's Alpha based on standardized items for the constructs brought out a reading of .918 which is considered excellent (Field, 2009). The Cronbach's Alpha based on standardized items for all the five variables was .735 as shown in Table 4.9 b.

Table 4.9 b: Reliability Statistics for all variables

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.723	.735	5

Source: Author, 2014

The study empirically examined the structure of the research instrument utilizing a factor analysis procedure. Several well recognized criteria for the factorability of correlation were used. All items were correlated at least with one other item, suggesting reasonable factorability. Most of the diagonal correlations were above 0.5 supporting the inclusion of each item in the factor analysis. The factors with communalities below 3 were dropped; all other factors with communalities above 3 were included in the factor analysis. Given this indicator, factor analysis was conducted with 56 items. Also, the accumulating explanatory variance of the dimensions established by various variables exceeds 75 percent. Thus, the experimental data collected for the research may be considered to be reliable. The full table is appended to this report.

Table 4.10 shows the first ten items and those that were dropped. The items registered a scale mean if item deleted of 201.26 – 203.39, scale variance if item deleted of 554.107 - 593.387, corrected item- total correlation of .325 – .627, and Cronbach’s Alpha if item deleted of .928 – .934. Based on the structure of means, the scale of variance, the coefficients of item-to-total correlation, and the coefficients of Cronbach’s Alpha, items that were considered reliable and acceptable were progressed for further analysis.

Table 4.10: Item-Total Statistics

Item-Total Statistics				
Factor	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach’s Alpha if Item Deleted
Category of institution	203.39	582.722	.139	.931
Structure of institution	203.92	580.660	.106	.931
Ownership of the firm	204.20	593.387	-.325	.933
Age of firm	202.75	586.590	-.066	.934
Number of employees	202.00	554.107	.381	.930
Position held by respondent	202.84	577.841	.182	.931
Length of time in current institution	202.72	576.816	.100	.932
Selecting key personnel in each functional department into the innovation process	201.63	559.276	.543	.928
Adopting accessed knowledge into daily activities	201.49	560.093	.564	.928
Matching core capabilities with market needs	201.26	556.276	.627	.928

Source: Author, 2014

Friedman’s test is a non-parametric test that is used in the same way as parametric repeated measures ANOVA to detect differences in treatments across multiple test attempts (Field, 2009). Analysis of variance between and within the people was done using the Friedman’s test. The findings show that the mean score between people and within people were 10.430 and 30.508 respectively. This suggests that the scoring between and within people

were relatively the same. The chi-square value was 1678.3 at $p < .001$, while the grand mean was 3.67. The sum of squares between people was 782.24 and that within people was 2007.95. Kendall's coefficient of concordance registered a value of .347. The model fit degrees were (chi-square = 1678.313, $df = 55$, $p \text{ value} = < .001$).

Table 4.11: ANOVA with Friedman's Test

ANOVA with Friedman's Test						
ANOVA		Sum of Squares	Df	Mean Square	Friedman's Chi-Square	Sig
Between People		782.239	75	10.430		
Within People	Between Items	2007.945 ^a	55	36.508	1678.313	.000
	Residual	2993.037	4125	.726		
	Total	5000.982	4180	1.196		
Total		5783.222	4255	1.359		
Grand Mean = 3.67						
a. Kendall's coefficient of concordance $W = .347$.						

Source: Author, 2014

Hottelling's T-square distribution which is a univariate distribution proportional to the F-distribution and arises as the distribution of a set of statistics which are the natural generalizations of statistics underlying student t -distribution (Field, 2009) was used to test the difference of the means of the data. The results confirmed the reliability of the data with a value of 38169.010, $F = 194.3$ and $df = 55$ at $p < .001$ as shown in Table 4.12.

Table 4.12: Hottelling's T-Squared Test

Hottelling's T-Squared Test				
Hottelling's T-Squared	F	df1	df2	Sig
38169.010	194.315	55	21	.000

Source: Author, 2014

4.6 Factor Extraction

To explain the dimensions for factor analysis, this research adopted the principal factor analysis and abstracted the factors with eigenvalues more than 1. Based on previous research the study adopted the Varimax axial rotation with factor loading above 0.5 after rotation and all factor loading below 0.50 were not retained (Hair et. al., 2006; Daud, 2004). Also, the difference of these factors and other factor loading values had to exceed 0.3. In this research, the factor loading values of every question item exceeded 0.7, and every question is vested with a factor. The factors were extracted and converged at 15 as shown in the appendices. These were further grouped into 14 major factors as listed in Table 4.13 against the individual Cronbach's scores.

Table 4.13: Item-Total Statistics

Item-Total Statistics					
Factor	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Squared Multiple Correlation	Cronbach's Alpha if Item Deleted
Financial Performance	49.8887	45.984	.278	.346	.847
Customer Satisfaction	50.4294	46.178	.265	.406	.847
Process Performance	50.3189	47.683	.060	.196	.853
Employee Satisfaction	49.8713	48.352	-.050	.157	.856
Internal Process Innovation	50.2492	41.512	.685	.678	.827
Technological Innovation	50.2434	42.091	.577	.591	.832
Research & Development Intensity	50.2965	40.651	.748	.678	.823
Employees Development	50.9178	39.562	.580	.481	.830
Cost Leadership Strategy	50.2240	40.892	.660	.601	.827
Product Differentiation Strategy	50.3441	40.531	.735	.738	.823
zMarket Focus Strategy	50.1658	37.102	.405	.269	.865
Lobbying and Advocacy	50.1891	39.902	.630	.665	.827
Public/Government Alliances	50.4527	38.966	.697	.826	.822
Industry Alliances	50.5147	39.711	.623	.710	.827

Source: Author, 2014

4.7 Types and Strengths of Relationship

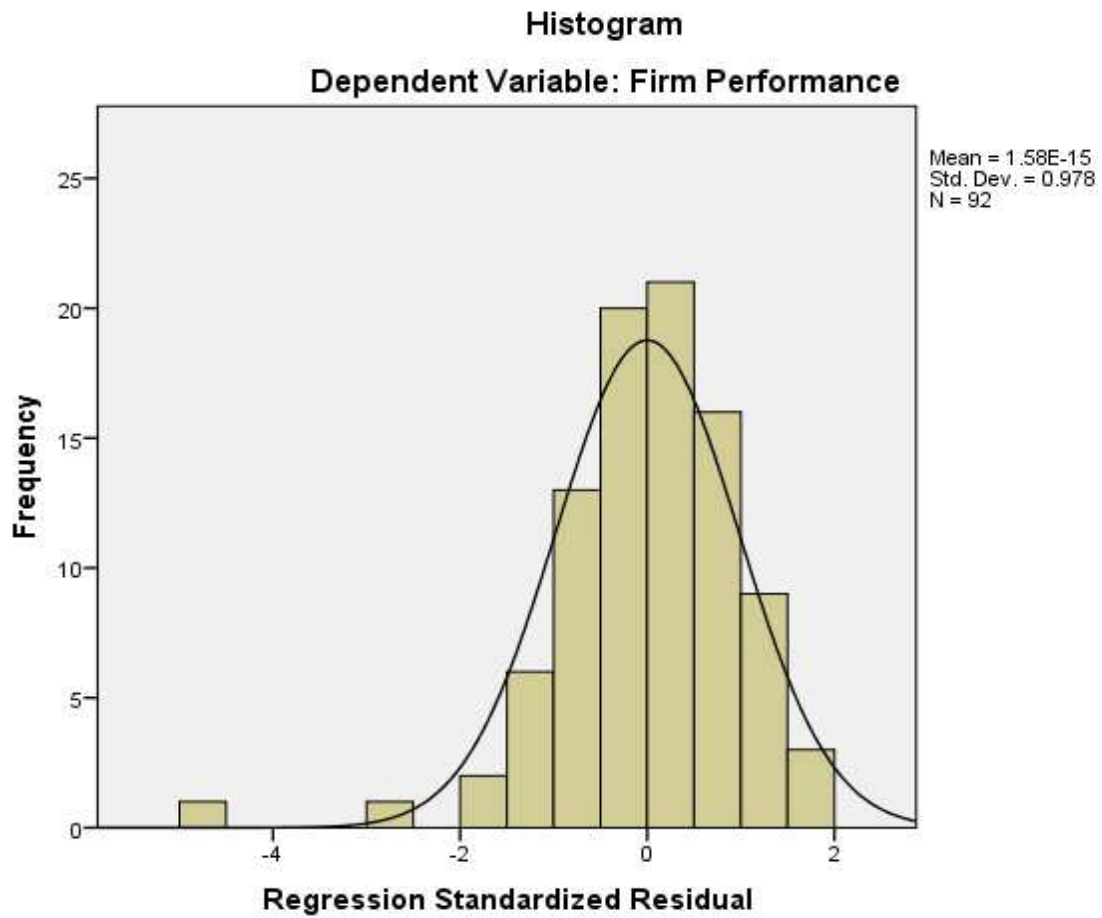
The research focused on establishing the influence that corporate political activity and competitive strategy have on the relationship between innovative capability and performance. Five objectives were developed to establish the relation. The first objective explored the nature of relationship that exists between innovative capability and performance. The second and third objectives sought to find out the effect that corporate political activity and competitive strategy have on the relationship between innovative capability and performance respectively. The fourth objective aimed at establishing the influence that corporate political activity has on the relationship between innovative capability, competitive strategy and performance. The fifth objective sought to establish whether the joint effect of innovative capability, corporate political activity and competitive strategy on performance is greater than the individual effects.

Correlation analysis was carried out on the factors making the main variables depicted in the study. The aim was to find out the type and strength of relationships that exists between the various factors making up each of the variables, within the variables, and across the variables. It was also intended to show whether the variables exhibited any relationship, the strength of those relationships and the type of the relationship, whether negative or positive. Multiple regressions were used to test the various hypotheses. These included the sum of squares, the residual sum of squares, residual errors, and the F -ratio. The t -statistics, which tests the hypothesis that the value of b is 0 and, therefore, the predictor variable contributes significantly to the ability to estimate values of the outcome (Field, 2009) are included. Other associated statistics including Durbin-Watson scores are also presented. Detailed analyses of each of the hypothesis are presented subsequently.

4.7.1 Innovative Capability and Firm Performance

Hypothesis H₁ focused on establishing the kind of relationship that exists between innovative capability and performance. The hypothesis specifically stated that, “*Innovative capability has a significant influence on performance of large manufacturing firms in Kenya*”. Innovative capability was measured by both internal and external factors. These included internal process innovation, technological innovation, research and development intensity and employee development. Performance focused on both the efficiency and effectiveness and was assessed through self reported measures where respondents were required to indicate their perception of the performance of their firms with regard to financial performance, customer satisfaction, process performance and employee satisfaction over a five year period from 2009 to 2013. Data was obtained using a Likert type scale of 1-5 where 1= strongly disagree, 2 = disagree, 3= neutral, 4= agree and 5= strongly agree. As shown in Figure 4.1 the data was normally distributed.

Figure 4.1 : Probability distribution of innovative capability and performance



Source: Author, 2014

The analysis began by correlating the factors making up innovative capability and firm performance. The aim was to establish the type and strength of relationship that existed within the variables. The results of Pearson correlation on factors making up the predictor variable, innovative capability in the conceptual framework are shown in Table 4.14.

Table 4. 14: Correlation coefficient of innovative capability factors

Correlations					
VARIABLE	R + Sig	Internal Process Innovation	Technological Innovation	R&D Intensity	Employees Development
Internal Process Innovation	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	109			
Technological Innovation	Pearson Correlation	.696**	1		
	Sig. (2-tailed)	.000			
	N	105	108		
Research & Development Intensity	Pearson Correlation	.726**	.651**	1	
	Sig. (2-tailed)	.000	.000		
	N	96	98	99	
Employees Development	Pearson Correlation	.575**	.547**	.609**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	104	104	96	106

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Author, 2014

Under innovative capability regression weights of all the items were significantly correlated with each other. Research and development was the strongest innovative capability factor showing strong correlation with all other factors. These results indicate that innovative activities in the firms are highly interlinked. Intra- firm linkages in innovative capabilities are also strong.

Table 4.15: Analysis of variance of innovative capability on firm performance

ANOVA ^a						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.767	4	.192	2.138	.083 ^b
	Residual	7.799	87	.090		
	Total	8.566	91			

a. Dependent Variable: Firm Performance
b. Predictors: (Constant), Employees Development, Technological Innovation, Research & Development Intensity, Internal Process Innovation

Source: Author, 2014

The ANOVA table shows the various sums of errors and the *F*-ratio. Since there are four predictors against the size *N* of 92, the model shows that the degrees of freedom (df) is 87 (92-4-1). The degree of freedom indicates the number of items that may vary when estimating some statistical parameter, and has a bearing on significance tests such as t-test and *F*-ratio (Field, 2009). The *F*-ratio which indicates the ratio of the average variability in the data that a given model can explain to the average variability unexplained by the same model and is used to test the overall fit of the model (Field, 2009), is 2.138 at *p* < .001.

Table 4.16 Model Summary IC against FP

Model Summary ^b										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.299 ^a	.090	.048	.29941	.090	2.138	4	87	.083	1.214
a. Predictors: (Constant), Employees Development, Technological Innovation, Research & Development Intensity, Internal Process Innovation										
b. Dependent Variable: Firm Performance										

Source: Author, 2014

From the results of the regression analysis, the model summary shows that all the factors making up innovative capability have a combined correlation with performance of *R* value .299 at significance level of .001. The *R*² value is .090. This suggests that the fit (model line) explains 9 percent of the total variation in the data. Since the Durbin Watson value is 1.214, which is not more than 2, the findings indicate that there is no autocorrelation. Further, the Durbin–Watson statistic is substantially less than 2, showing evidence of positive serial correlation (Durbin- Watson, 1950). The beta coefficients and other statistics are presented in Table 4.17.

Table 4.17: Coefficients of IC factors against FP

Coefficients ^a								
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	3.732	.196		19.058	.000		
	Internal Process Innovation	.034	.073	.079	.468	.641	.369	2.710
	Technological Innovation	-.084	.063	-.203	-1.324	.189	.443	2.255
	Research & Development Intensity	.135	.069	.321	1.964	.053	.392	2.552
	Employees Development	.011	.040	.037	.269	.788	.561	1.783

a. Dependent Variable: Firm Performance

Source: Author, 2014

From the coefficients, the model can be defined as:

$$Y = a_0 + b_1X_1 + b_2X_2 + \dots + b_nX_n + e$$

$$FP_1 = 3.732 + .234 IC_1 + \dots e$$

The regression equation shows that innovative capability factors influence performance outcomes by .234. This indicates that a unit percentage increase in innovative capability increases firm performance by 23.4 percent. The *t*-statistics which test whether a regression coefficient is significantly different from zero (Field, 2000), shows that none of the predictors is contributing significantly to the outcome at $p < .05$ except R&D intensity which is just above at .053. This level of influence of R&D is not surprising. In a sense it is a reflection that the manufacturing firms are making attempts to respond to the rapid technological changes, increased competition and changing consumer preferences (Richard et. al., 2004). It is also possible that the quest to maximize profits drives the firms to continuously explore ways of configuring and reconfiguring resources for optimal benefits (Song et. al., 2011).

Employee development had the least significant effect at .788 followed by internal innovation process at .641. This disconnect shows that most R&D outcomes are not translated into innovative products and processes due to lack of technical capacity by the staff. A possible explanation is that most of the manufacturing firms do not train their own staff instead they employ staff who already have the requisite skills and competences.

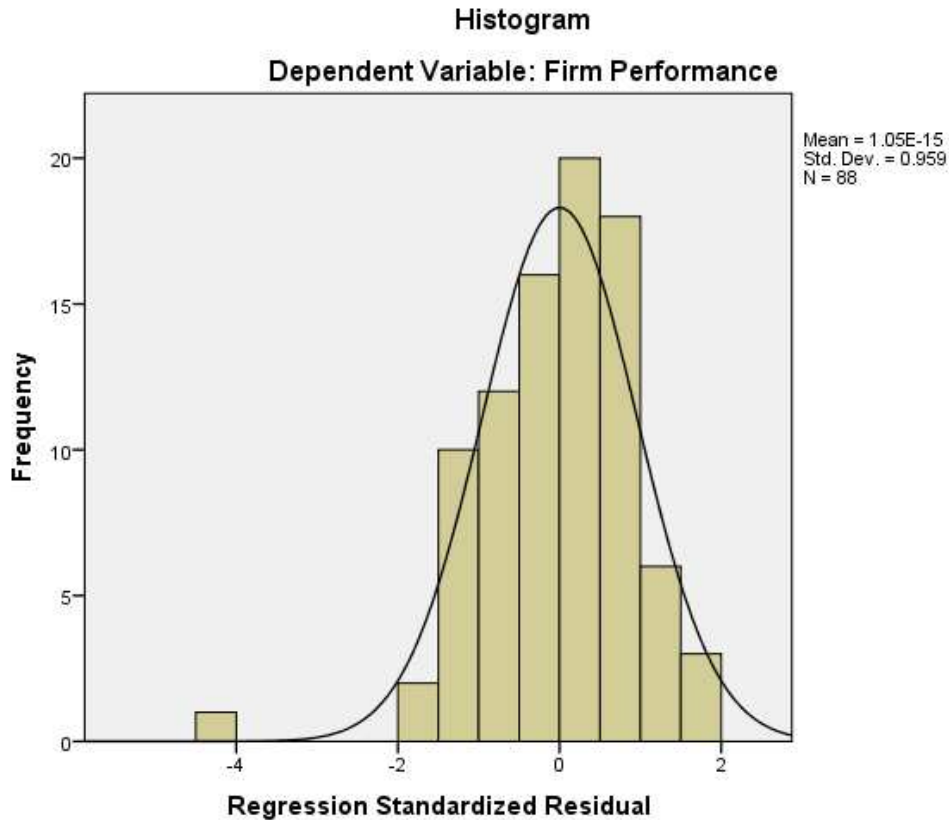
Overall the model shows a positive correlation between factors making up innovative capability and performance. The ANOVA, and results from the table of coefficients point to a positive prediction of the outcome, firm performance. When regressed against innovative capability as a single predictor, the model in Table 4.17 is achieved.

4.7.2 Corporate Political Activity on Innovative Capability and Firm Performance

Hypothesis H₂ focused on the effect that corporate political activity has on the relationship between innovative capability and performance. Corporate political activity was measured through a 9 item scale that had three factors. The factors were lobbying and advocacy, public/government alliances and industry alliance. Measurements for innovative capability and performance were as indicated in section 4.7.1. This hypothesis specifically stated that, *“Corporate political activity has a significant influence on the relationship between innovative capability and performance of large manufacturing firms in Kenya”*.

Hierarchical regression was used to establish the level of influence that corporate political activity has on the relationship between innovative capability and performance. From the histogram, Figure 4.2, it is clear that the data is normally distributed as the other tests have shown.

Figure 4.2 : Probability distribution of innovative capability, corporate political activity and performance



Source: Author, 2014

Table 4.18 shows the results of Pearson correlation on factors making up the moderating variable corporate political activity. The factors as documented in this research are lobbying and advocacy, public/government alliances and industry alliances. The correlation of the corporate political activity factors aimed to establish the strength and type of relation that existed between and within the factors. The strength of the correlation indicated the extent to which the factors were linked to the construct of corporate political activity.

Table 4.18: Correlation coefficient of corporate political activity factors

Correlations				
VARIABLE	R + Sig	Lobbying and Advocacy	Public/Government Alliances	Industry Alliances
Lobbying and Advocacy	Pearson Correlation	1		
	Sig. (2-tailed)			
	N	106		
Public/Government Alliances	Pearson Correlation	.666**	1	
	Sig. (2-tailed)	.000		
	N	105	109	
Industry Alliances	Pearson Correlation	.426**	.790**	1
	Sig. (2-tailed)	.000	.000	
	N	105	107	108

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Author, 2014

The correlation results in Table 4.18 show that all the factors making corporate political activity were strongly and significantly correlated. The strongest correlation was between industry alliances and public/ government alliances. This shows that a possible explanation for the formation of industry alliances is the ability to effectively engage and lobby government on issues of interest to the sector. The same reason could apply regarding the strong correlation between public/ government alliances and lobbying and advocacy. Although correlation between industry alliances and lobbying and advocacy was the lowest, it was significant. A possible explanation is that the manufacturing sector does not integrate lobbying and advocacy strategies in their programmes but rely on organs with advocacy mandate to lobby political leadership on their behalf.

Table 4.19: Coefficients of IC and CPA factors against FP

Model Summary ^c										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.313 ^a	.098	.055	.29814	.098	2.254	4	83	.070	
2	.511 ^b	.261	.197	.27480	.163	5.898	3	80	.001	1.481
a. Predictors: (Constant), Employees Development, Technological Innovation, Research & Development Intensity, Internal Process Innovation										
b. Predictors: (Constant), Employees Development, Technological Innovation, Research & Development Intensity, Internal Process Innovation, Lobbying and Advocacy, Industry Alliances, Public/Government Alliances										
c. Dependent Variable: Firm Performance										

Source: Author, 2014

To evaluate the moderating effect of corporate political activity on the relationship between innovative capability and performance a two way ANOVA was employed. The regression equation shows that introduction of corporate political activity into the model increases the influence of innovative capability from .090 to .098. The R² value of .098, shows that the influence of factors making up innovative capability increase by .08 to explain the relationship between innovative capability and performance at 9.8 percent. When factors making up corporate political activity are combined with factors making innovative capability, Model 2 improves to R² of .261. This indicates that the combined model can explain 26.1 percent of firm performance, up from 9.8 percent given by innovative capability alone, a percentage increase to prediction of slightly above 16 percent. The Durbin-Watson score is 1.48. Table 4.20 provides more insight on the relationship as shown in the analysis of variance.

Table 4.20: Analysis of variance of IC and CPA on FP

ANOVA ^a						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.801	4	.200	2.254	.070 ^b
	Residual	7.378	83	.089		
	Total	8.179	87			
2	Regression	2.138	7	.305	4.044	.001 ^c
	Residual	6.041	80	.076		
	Total	8.179	87			
a. Dependent Variable: Firm Performance						
b. Predictors: (Constant), Employees Development, Technological Innovation, Research & Development Intensity, Internal Process Innovation						
c. Predictors: (Constant), Employees Development, Technological Innovation, Research & Development Intensity, Internal Process Innovation, Lobbying and Advocacy, Industry Alliances, Public/Government Alliances						

Source: Author, 2014

The F-factor for innovative capability increases from 2.138 at the significance level of .083 to 2.254 at a significance level of .07. Further, the sum of squares improves from .767 to .801. When factors making up corporate political activity are added into the equation the F value increases to 4.044. From the model summary, the F change is significant at $p < .001$, indicating that corporate political activity brings in an important value in predicting firm performance. The beta coefficients for the hierarchical regression analysis are presented in Table 4.21.

Table 4.21: Correlation coefficients for IC and CPA on FP

Model		Coefficients ^a				
		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.764	.198		18.985	.000
	Internal Process Innovation	.034	.074	.079	.465	.643
	Technological Innovation	-.101	.064	-.246	-1.577	.118
	Research & Development Intensity	.129	.069	.310	1.879	.064
	Employees Development	.028	.042	.095	.673	.503
2	(Constant)	3.613	.193		18.765	.000
	Internal Process Innovation	.027	.068	.063	.403	.688
	Technological Innovation	-.094	.059	-.228	-1.579	.118
	Research & Development Intensity	.111	.066	.268	1.697	.094
	Employees Development	.033	.039	.112	.858	.394
	Lobbying and Advocacy	.114	.046	.346	2.455	.016
	Public/Government Alliances	.077	.062	.240	1.246	.216
	Industry Alliances	-.148	.052	-.466	-2.844	.006

a. Dependent Variable: Firm Performance

Source: Author, 2014

From the coefficients, the model can be defined as:

$$Y = a_0 + b_1X_1 + b_2X_2 + \dots + b_nX_n + e$$

$$FP_2 = 3.613 + .215 IC_2 + .120 CPA_1 + \dots e$$

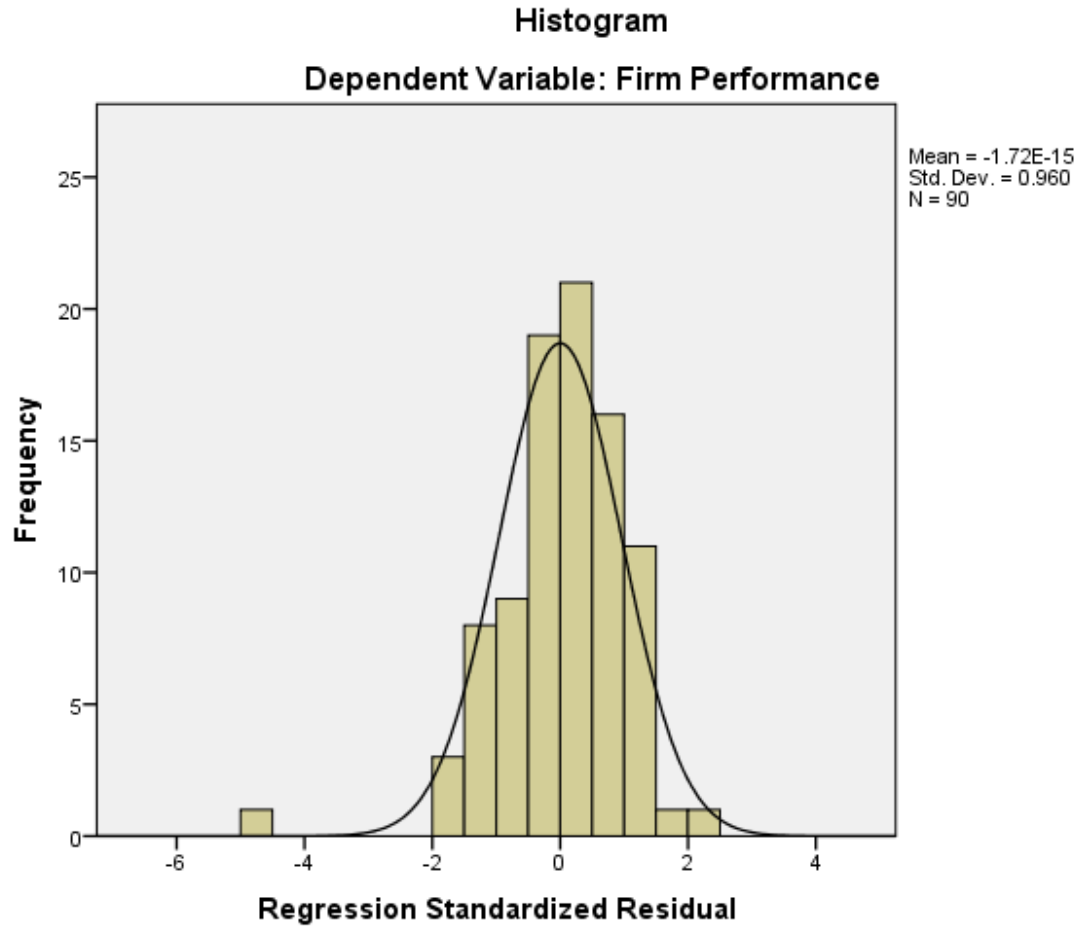
The regression results show that when corporate political activity is introduced, the influence of innovative capability on performance drops from .234 to .215. Corporate political activity influences the relation by .120 (12 percent). On associated standard errors on b-values, the *t*-statistics shows that none of the predictors is contributing significantly to the outcome at $p < .05$, except lobbying and advocacy which is .016. The significance of R&D drops to .094.

Overall, the model confirms a positive influence of factors making up corporate political activity on the effect of innovative capability on performance. This is similar to findings on the ANOVA, and the results from the table of coefficients which point to a strong prediction of the outcome, firm performance.

4.7.3 Competitive Strategy on Innovative Capability and Firm Performance

Hypothesis H₃ focused on the effect that competitive strategy has on the relationship between innovative capability and performance. Competitive strategy was measured through a 9 item scale. Factors making up competitive strategy were cost leadership, product differentiation and market focus. The hypothesis specifically stated that, *“Competitive strategy has a significant influence on the relationship between innovative capability and performance of large manufacturing firms in Kenya”*. As shown in Figure 4.3, the data is normally distributed as the other tests have shown.

Figure 4.3 : Probability distribution of innovative capability, competitive strategy and performance



Source: Author, 2014

Table 4.22 shows the results of Pearson correlation on factors making up the moderating variable competitive strategy in the conceptual framework. The aim of the correlation was to establish the type and strength of the relationship that existed between the factors. The correlation also aimed to confirm if the factors were linked to competitive strategy.

Table 4.22: Correlation coefficient of competitive strategy factors

Correlations				
VARIABLE	R + Sig	Cost Leadership Strategy	Product Differentiation Strategy	Market Focus Strategy
Cost Leadership Strategy	Pearson Correlation	1		
	Sig. (2-tailed)			
	N	107		
Product Differentiation Strategy	Pearson Correlation	.579**	1	
	Sig. (2-tailed)	.000		
	N	105	108	
Market Focus Strategy	Pearson Correlation	.312**	.435**	1
	Sig. (2-tailed)	.001	.000	
	N	105	107	109

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Author, 2014

Table 4.22 shows that all the factors making competitive strategy are correlating significantly at the .01 level. This shows that the manufacturing firms in Kenya pursue documented competitive strategies. Product differentiation and cost leadership strategies showed the strongest correlation.

Table 4.23: Coefficients of competitive strategy on innovative capability and firm performance

Model Summary ^c										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.305 ^a	.093	.050	.30096	.093	2.173	4	85	.079	
2	.420 ^b	.177	.106	.29189	.084	2.788	3	82	.046	1.378

a. Predictors: (Constant), Employees Development, Technological Innovation, Research & Development Intensity, Internal Process Innovation

b. Predictors: (Constant), Employees Development, Technological Innovation, Research & Development Intensity, Internal Process Innovation, Market Focus Strategy, Cost Leadership Strategy, Product Differentiation Strategy

c. Dependent Variable: Firm Performance

Source: Author, 2014

Hierarchical regression was used to establish the level of influence that competitive strategy has on the relationship between innovative capability and performance. The model summary in Table 4.23 shows that the factors making up innovative capability have a combined correlation R value of .305, showing the influence of innovative capability on performance changes slightly when competitive strategy is introduced. The value of R^2 is .093, meaning that factors making up innovative capability explain 9.3 percent of performance. When combined with competitive strategy the R^2 value increases to .420 at $p < .05$ showing that competitive strategy has an influence on the relationship between innovative capability and performance. The effect on performance of the two variables rises significantly with a combined value of R^2 is .177, meaning that factors making up innovative capability and competitive strategy explain 17.7 percent of performance. The Durbin-Watson value is 1.378 showing that the data is good for the analysis.

Table 4.24: Analysis of variance of IC and CS on FP

ANOVA ^a						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.787	4	.197	2.173	.079 ^b
	Residual	7.699	85	.091		
	Total	8.486	89			
2	Regression	1.500	7	.214	2.515	.022 ^c
	Residual	6.986	82	.085		
	Total	8.486	89			
a. Dependent Variable: Firm Performance						
b. Predictors: (Constant), Employees Development, Technological Innovation, Research & Development Intensity, Internal Process Innovation						
c. Predictors: (Constant), Employees Development, Technological Innovation, Research & Development Intensity, Internal Process Innovation, Market Focus Strategy, Cost Leadership Strategy, Product Differentiation Strategy						

Source: Author, 2014

Table 4.24 shows that the F-factor slightly increases from 2.2 at significance level of .079, to 2.5 at significance of level .022. Further, the regression sum of squares improves from .787 to 1.500 when factors making up competitive strategy are added into the equation. From the model summary, the F change rises by .4 indicating that competitive strategy brings a marginal value in predicting firm performance. The beta coefficients for the hierarchical regression analyses are presented in Table 4.25.

Table 4.25: Beta coefficients for hierarchical regression IC and CS on FP

Model		Coefficients ^a				
		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.729	.199		18.706	.000
	Internal Process Innovation	.032	.074	.072	.429	.669
	Technological Innovation	-.087	.064	-.209	-1.360	.178
	Research & Development Intensity	.140	.069	.331	2.025	.046
	Employees Development	.011	.040	.039	.282	.779
2	(Constant)	3.635	.202		17.987	.000
	Internal Process Innovation	.018	.075	.042	.244	.808
	Technological Innovation	-.098	.063	-.237	-1.554	.124
	Research & Development Intensity	.121	.072	.285	1.675	.098
	Employees Development	.023	.039	.077	.577	.565
	Cost Leadership Strategy	.143	.051	.369	2.780	.007
	Product Differentiation Strategy	-.070	.063	-.169	-1.105	.272
Market Focus Strategy	-.018	.021	-.097	-.853	.396	

a. Dependent Variable: Firm Performance

Source: Author, 2014

From the coefficients, the model can be defined as:

$$Y = a_0 + b_1X_1 + b_2X_2 + \dots + b_nX_n + e$$

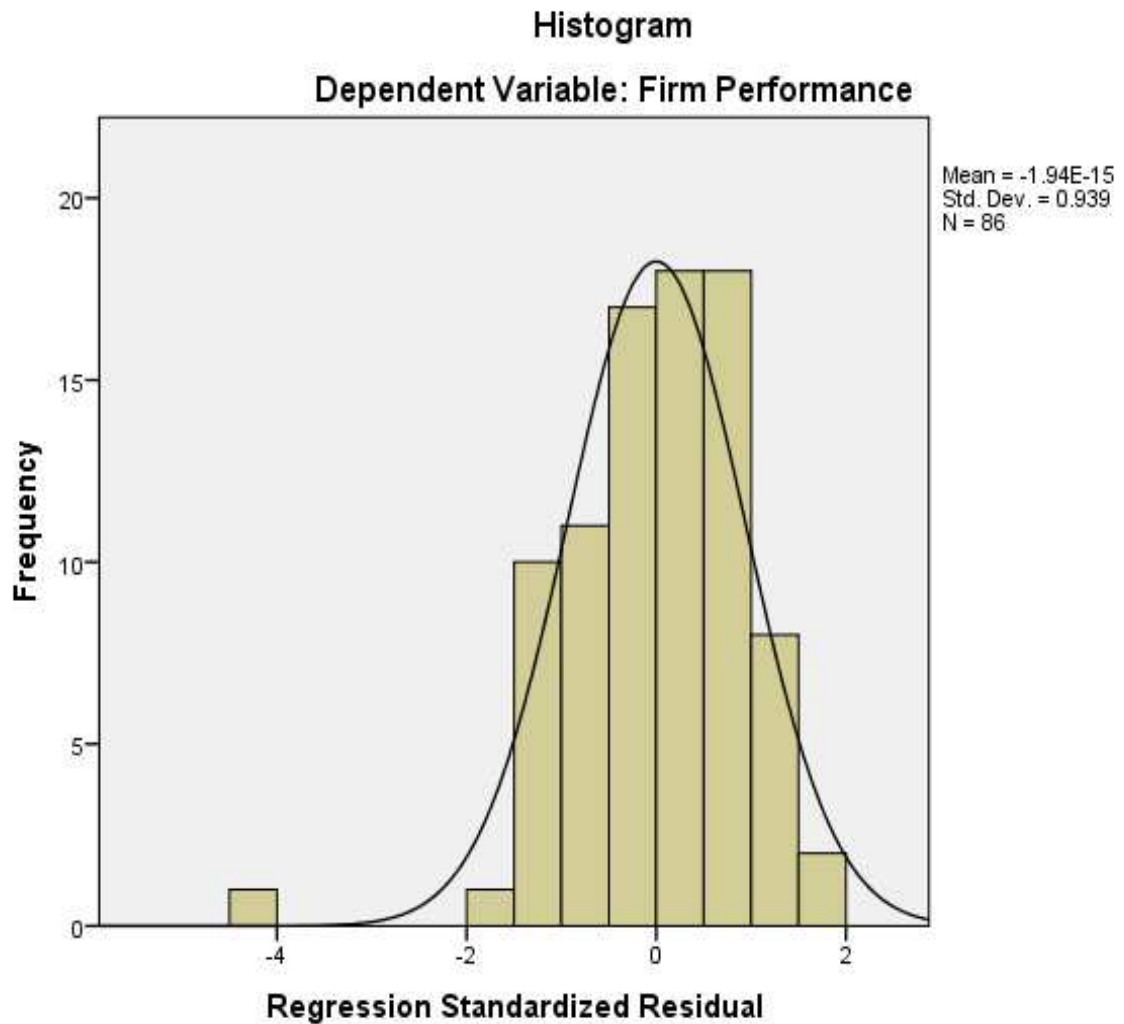
$$FP_3 = 3.635 + .167 IC_3 + .103CS_1 + \dots e$$

The model summary shows that when combined with competitive strategy, innovative capability accounts for .167 (16.7 percent) of the variance in performance while competitive strategy accounts for .103 (10 percent) of the variance. On associated standard errors on b-values, the *t*-statistics, show that none of the predictors is contributing significantly to the outcome at $p < .05$, except cost leadership and research and development intensity at .143 and .121. However, the *t* values associated with cost leadership and R&D intensity are high at 2.9 and 1.7 respectively. This results show the consistent positive and significant effect that R&D has on performance. The significance of competitive strategy is an indication that the firms employ tactful approaches towards enhancing their competitiveness. The model indicates a strong correlation between factors making up competitive strategy, innovative capability and performance. The analysis of variance (ANOVA) and the results from the table of coefficients also indicate a positive prediction of the outcome, firm performance.

4.7.4 Corporate Political Activity on Innovative Capability, Competitive Strategy and Firm Performance

Hypothesis H₄ focused on the kind of influence that corporate political activity has on the relationship between innovative capability, competitive strategy and performance. The hypothesis specifically stated that, “*Corporate political activity has a significant effect on the relationship between innovative capability, competitive strategy and performance of large manufacturing firms in Kenya*”.

Figure 4.4 : Probability distribution of innovative capability, corporate political activity, competitive strategy and performance



Source: Author, 2014

The histogram, Figure 4.4, indicates that the data is normally distributed. The variables in the study are innovative capability, corporate political activity, competitive strategy and performance. All the variables were correlated with each other to establish the type and strength of the relationship that existed between the variables. Results of the correlation are shown in Table 4.26.

Table 4.26: Correlation coefficients of major variables

Correlations					
		Innovative Capability	Competitive Strategy	Corporate Political Activity	Firm Performance
Innovative Capability	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	93			
Competitive Strategy	Pearson Correlation	.583**	1		
	Sig. (2-tailed)	.000			
	N	91	104		
Corporate Political Activity	Pearson Correlation	.530**	.589**	1	
	Sig. (2-tailed)	.000	.000		
	N	89	98	104	
Firm Performance	Pearson Correlation	.205*	.190	.208*	1
	Sig. (2-tailed)	.050	.056	.036	
	N	92	102	102	110
**. Correlation is significant at the 0.01 level (2-tailed).					
*. Correlation is significant at the 0.05 level (2-tailed).					

Source: Author, 2014

From the table it is evident that all the factors compared strongly with each other. Some were significant at $p < 0.01$. The strongest correlation was between corporate political activity and competitive strategy. This is not surprising given political activity is a strategic issue on which decisions are made at the top management level. This strong relationship supports theoretical assertions that firms engage in corporate political activity because there are inherent benefits (Kemal, 2010; Irene and Chow, 2007). The strong correlation between competitive strategy and innovative capability shows that firms are aware that their competitive strategies should aim at enhancing the uniqueness of their offerings if they are to attain and sustain competitive advantage (Fuchs et. al., 2000).

Corporate political activity correlated with innovative capability with .530r at $p < .01$. This correlation was significant. As Reihben and Schuller, (2006) contend, political activity facilitates access to unique resources which enhance firm's innovative performance. Regression analysis was used to search for the level of influence that corporate political activity has on the three variables. The analysis of variance (ANOVA) provides more insight on the relationship as shown in Table 4.27.

Table 4.27: ANOVA for IC, CPA and CS on FP

ANOVA ^a						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.823	4	.206	2.292	.067 ^b
	Residual	7.273	81	.090		
	Total	8.096	85			
2	Regression	1.464	7	.209	2.459	.025 ^c
	Residual	6.632	78	.085		
	Total	8.096	85			
3	Regression	2.489	10	.249	3.329	.001 ^d
	Residual	5.607	75	.075		
	Total	8.096	85			
a. Dependent Variable: Firm Performance						
b. Predictors: (Constant), Employees Development, Technological Innovation, Research & Development Intensity, Internal Process Innovation						
c. Predictors: (Constant), Employees Development, Technological Innovation, Research & Development Intensity, Internal Process Innovation, Market Focus Strategy, Cost Leadership Strategy, Product Differentiation Strategy						
d. Predictors: (Constant), Employees Development, Technological Innovation, Research & Development Intensity, Internal Process Innovation, Market Focus Strategy, Cost Leadership Strategy, Product Differentiation Strategy, Lobbying and Advocacy, Industry Alliances, Public/Government Alliances						

Source: Author, 2014

When innovative capability is combined with competitive strategy the F-factor slightly increases from 2.2 at significance level of .067 to 2.5 at .025, level of significance. When corporate political activity is introduced the F- factor increases further to 3.3 at $p < .001$. Further, the regression sum of squares improves from .823 to 1.464 with competitive

strategy and rises significantly to 2.489 when factors making up corporate political activity are added into the equation. From the model summary, the F change is significant; indicating that corporate political activity brings an important value in predicting firm performance.

Table 4.28: Model summary for IC, CPA and CS on FP

Model Summary ^d										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.319 ^a	.102	.057	.29965	.102	2.292	4	81	.067	
2	.425 ^b	.181	.107	.29160	.079	2.510	3	78	.065	
3	.554 ^c	.307	.215	.27343	.127	4.571	3	75	.005	1.555
a. Predictors: (Constant), Employees Development, Technological Innovation, Research & Development Intensity, Internal Process Innovation										
b. Predictors: (Constant), Employees Development, Technological Innovation, Research & Development Intensity, Internal Process Innovation, Market Focus Strategy, Cost Leadership Strategy, Product Differentiation Strategy										
c. Predictors: (Constant), Employees Development, Technological Innovation, Research & Development Intensity, Internal Process Innovation, Market Focus Strategy, Cost Leadership Strategy, Product Differentiation Strategy, Lobbying and Advocacy, Industry Alliances, Public/Government Alliances										
d. Dependent Variable: Firm Performance										

Source: Author, 2014

The model summary shows that the factors making up innovative capability have a combined correlation R value of .319. This shows that the influence of innovative capability on performance changes slightly when both corporate political activity and competitive strategy are introduced. The R² value of .102 shows that factors making up innovative capability register a marginal increase to explain performance at 10 percent. The Factors making up innovative capability and competitive strategy have a combined correlation R value of .420 showing that relationship between the influence of competitive strategy on the relationship between innovative capability and performance is significant. The combined value of R² is .181, meaning that factors making up innovative capability

and competitive strategy explain 18 percent of performance. When corporate political activity is introduced the R value increases to .554 and R^2 is .307 at $p < 0.01$. The three variables explain 30 percent of variance in performance. The Durbin-Watson value is 1.555 showing that the data is good for the analysis. The beta coefficients for the hierarchical regression analysis are presented in Table 4.29.

Table 4.29: Coefficient correlations for IC, CPA, CS and FP

Model		Coefficients ^a				
		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.762	.202		18.634	.000
	Internal Process Innovation	.031	.074	.071	.420	.675
	Technological Innovation	-.104	.065	-.252	-1.616	.110
	Research & Development Intensity	.134	.069	.320	1.940	.056
	Employees Development	.029	.042	.097	.688	.493
2	(Constant)	3.664	.205		17.889	.000
	Internal Process Innovation	.026	.076	.059	.341	.734
	Technological Innovation	-.113	.064	-.273	-1.751	.084
	Research & Development Intensity	.120	.072	.286	1.659	.101
	Employees Development	.034	.041	.114	.826	.411
	Cost Leadership Strategy	.140	.053	.360	2.625	.010
	Product Differentiation Strategy	-.076	.066	-.188	-1.158	.251
Market Focus Strategy	-.017	.021	-.093	-.802	.425	
3	(Constant)	3.599	.197		18.263	.000
	Internal Process Innovation	.044	.072	.100	.608	.545
	Technological Innovation	-.100	.061	-.242	-1.648	.104
	Research & Development Intensity	.117	.068	.279	1.711	.091
	Employees Development	.041	.039	.138	1.054	.295
	Cost Leadership Strategy	.100	.056	.258	1.783	.079
	Product Differentiation Strategy	-.105	.071	-.259	-1.481	.143
	Market Focus Strategy	-.018	.020	-.096	-.872	.386
	Lobbying and Advocacy	.064	.053	.194	1.214	.229
	Public/Government Alliances	.132	.069	.411	1.912	.060
	Industry Alliances	-.149	.052	-.466	-2.842	.006

a. Dependent Variable: Firm Performance

Source: Author, 2014

From the coefficients, the model can be defined as:

$$Y = a_0 + b_1 X_1 + b_2 X_2 + \dots + b_n X_n + e$$

$$FP_4 = 3.599 + .275 IC_4 - .97 CS_2 + .139 CPA_2 + \dots e$$

The model summary shows that when corporate political activity is introduced in the equation, the effect of innovative capability rises sharply from 16.7 percent to 27.5 percent. The effect of competitive strategy registers an insignificant drop of .03 percent from .10. The *t*- statistics show that public/ government alliances, cost leadership strategies and R&D intensity were the only factors that had significant relationship with performance. Public/ government alliances had the most significant effect. A possible explanation is that firms prioritize public/ government alliances on the supposition that they will raise awareness of the relevant government officials and/or agencies resulting in the reduction or removal of identified political threats (Keillor et. al., 2009). It is also possible that government has taken deliberate measures to involve private sector in policy formulation process (GOK, 2013).

In this model the significance of the influence of cost leadership strategy shows that firms in the sector focus on mass production of low value added products that mainly target the domestic market. It is also possible that the finding reflects the desire of the manufacturing firms to safeguard the domestic market through effective management of product related regulations which make operations in the local market problematic (Keillor et. al., 2009).

The model also shows a strong correlation between factors making up innovative capability, corporate political activity, competitive strategy and performance. The analysis of variance (ANOVA), and results from the table of coefficients point to a strong prediction of the outcome, firm performance. When regressed against corporate political activity, innovative capability, competitive strategy and as combined predictors, the model in Table 4.29 is achieved.

4.7.5 Joint effect of Innovative Capability, Corporate Political Activity and Competitive Strategy on Firm Performance

Hypothesis H₅ focused on establishing whether the joint impact of innovative capability, corporate political activity, and competitive strategy on performance is greater than their individual effects. The hypothesis specifically stated that, “*The relationship between innovative capability, corporate political activity and competitive strategy has a significant effect on performance of large manufacturing firms in Kenya.*”. Multiple regression analysis was used to search for the level of the joint effect. The results of the regression analysis for each of the variables are presented separately as well as the one showing their joint effect.

Table 4.30: Model summary IC against FP

Model Summary ^b										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.299 ^a	.090	.048	.29941	.090	2.138	4	87	.083	1.214
a. Predictors: (Constant), Employees Development, Technological Innovation, Research & Development Intensity, Internal Process Innovation										
b. Dependent Variable: Firm Performance										

Source: Author, 2014

Table 4.30 shows that factors making up innovative capability have a combined correlation with performance of R value .299 at significance level of .083. The value of R^2 is .090, meaning that factors making up innovative capability explain only 9 percent of firm performance. The Durbin-Watson value is 1.214.

Table 4.31: Model summary CPA against FP

Model Summary ^b										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.378 ^a	.143	.117	.27615	.143	5.441	3	98	.002	1.371
a. Predictors: (Constant), Industry Alliances, Lobbying and Advocacy, Public/Government Alliances										
b. Dependent Variable: Firm Performance										

Source: Author, 2014

Factors making up corporate political activity have a combined correlation R value of .378 at significance level of .002. The value of R^2 is .143, meaning that factors making up innovative capability explain only 14 percent of firm performance. The Durbin-Watson value is 1.371.

Table 4.32: Model summary CS against FP

Model Summary ^b										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.318 ^a	.101	.073	.28843	.101	3.666	3	98	.015	1.424
a. Predictors: (Constant), Market Focus Strategy, Cost Leadership Strategy, Product Differentiation Strategy										
b. Dependent Variable: Firm Performance										

Source: Author, 2014

Factors making up competitive strategy have a combined correlation with performance of R.318 at significance level of .015. The value of R^2 is .101 meaning that factors making up innovative capability explain only 10 percent of firm performance. The Durbin-Watson value is 1.424.

Table 4.33: Model summary IC, CPA, CS and FP

Model Summary ^b										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.554 ^a	.307	.215	.27343	.307	3.329	10	75	.001	1.555
a. Predictors: (Constant), Market Focus Strategy, Technological Innovation, Lobbying and Advocacy, Employees Development, Industry Alliances, Cost Leadership Strategy, Product Differentiation Strategy, Research & Development Intensity, Internal Process Innovation, Public/Government Alliances										
b. Dependent Variable: Firm Performance										

Source: Author, 2014

When the factors making up innovative capability, corporate political activity and competitive strategy are combined, results of the regression analysis show a combined correlation R value of .554 at significant level of .001. The value of R^2 is .307, meaning that the joint effect of the factors making up the three variables when combined explain 30 percent of firm performance. This is greater than their individual influence of 9 percent (innovative capability), 14 percent (corporate political activity) and 10 percent (competitive strategy) as shown in Tables 4.30, 4.31 and 4.32 respectively.

4.8 Chapter Summary

In this chapter data analysis and interpretation of the results have been presented. Descriptive statistics that provide the profile of the companies under study have been shown and the demographics of the respondents analysed. The results of correlation analysis for the variables under study have been presented and discussed. How the various variables relate within and between themselves have also been shown.

Pearson's correlation tests of the hypothesis and the results and further confirmations by regression analysis are presented. Interaction variables that were constructed to test for the moderating effects of corporate political activity and competitive strategy on firm performance are also shown and their effects presented and discussed.

CHAPTER FIVE

DISCUSSION OF RESULTS

5.1 Introduction

In this chapter the findings of the study are discussed based on the objectives of the study. The methods used to analyse the data are stated. Key findings under each objective are presented and compared with theories and similar empirical findings. Arising from the results and discussions, the findings are interpreted leading to the acceptance or rejection of the stated hypotheses.

5.2 Innovative Capability and Firm Performance

The first objective of the study was to establish the influence that innovative capability has on performance. One hundred and twelve firms in the study were measured with regards to their degree of internal innovation processes, technological innovation, R&D intensity and employee development against their degree of financial performance, customer satisfaction, process performance and employee satisfaction. To realize this objective the study began by investigating the correlation among the various factors making up innovative capability. Here it was found that all the factors making innovative capability were positively correlated. This made it apparent that innovative capability was an identifiable construct and all the factors making innovative capability in the large manufacturing firms were well aligned. When innovative capability factors were correlated with performance the results showed that three out of the four innovative capability factors had strong positive correlation with firm performance. However technological innovation had a negative correlation with performance.

Three key findings were made on the influence of innovative capability on performance. First, overall innovative capability has a positive influence on performance. Second, although innovative capability has a positive influence on performance, the various factors making innovative capability accounted for different levels of variance in performance. Third, in the context of manufacturing firms in Kenya, technological innovation has a negative influence on firm performance.

The finding that innovative capability has a positive influence on performance supports theoretical predictions by resource based view, dynamic capabilities and theories on innovation and demonstrates positive associations between resources/ capabilities and performance (Erdil et al., 2010; Teece and Pisano, 1994). The finding also conforms to several previous research which established that innovative capability has a positive influence on performance (Song et al., 2011; Terzivoski and Samson, 2007; Hilman et al., 2004). The findings reveal that most of the manufacturing firms are involved in activities aimed at enhancing their innovative capability. And suggest that at the practical level manufacturing firm's that engage in programs aimed at enhancing their innovative capability improve their performance by about 10 percent.

The finding that R&D intensity had the strongest positive influence on performance is similar to that established by Sher and Yang (2005) who explored the influence of innovative capabilities and clustering effects along the value chain of the Taiwanese Integrated Circuit (TIC) industry and found that higher R&D intensity and higher R&D manpower were strong predictors of improved firm performance. Their study also

established that innovative capabilities are mostly positively related to performance as measured by returns on assets. This finding provides further evidence for the strong role of R&D in innovative capability as found in empirical literature (Barry et al., 2012; Parnell, 2011). For example, Erdil (2009) investigated the relationship between market orientation, firm innovativeness and innovative performance in Hungary, using a cross sectional survey, and found that an innovation strategy targeted at consumers and continuous R&D had a strong positive correlation to performance.

Not all factors of innovative capability have a positive effect on performance. Some have a negative effect. As indicated by the study results the correlation between technological innovation and performance is lowest at b.-203. This finding is similar to that established by Egbetokun et al., (2007) who found that firms in Nigeria did not invest adequately in technological innovation and as a result it was not easy to establish the possible influence of technological innovation on performance. This finding however contradicts substantial prior research which shows that firms that embrace technological innovation were able to differentiate their products to their advantage (Terzvioski and Samson, 2007; Lawson and Samson, 2001).

In the case of the manufacturing firms in Kenya, this finding suggests that R&D intensity is not supported by technological innovation in the participant firms. For the manufacturing firms this is worrying because increasingly production in the global arena is moving towards sophisticated high- technology based innovation. The low correlation in the case of Kenya could be attributed to high cost of technology which seems to have a

negative effect on the capacity of firms to invest in emerging knowledge based techniques. It is also possible that the highly dynamic nature of emerging technology deters firms from embracing technology supported innovations. Study findings show the scores for technology innovation were consistently low. This suggests that although the intensity of R&D was high, this was not matched with technological innovation. Further R&D intensity is not anchored on existing technology. Most firms also do not upgrade their technology in time. A possible explanation for the low uptake of technology by the manufacturing firms could be that the investment related costs are high. It is also possible that most of the firms are involved in production of products that cannot be significantly differentiated and for which there is a ready market such as food and beverages.

Even though Hillman et. al., (2009) found that internal process innovation was effective at enhancing performance the respondents in this study did not score highly on it. The correlation was .073 at a significance level of .641. This shows that in spite of intensity in R&D activities, internal firm processes are not strengthened to support new product development. This is an indication that most of the manufacturing firms have not linked their internal operational strategies to business outcomes.

Findings on the influence of employee development on performance show that the strength of the influence of innovative capability on performance may vary depending on the sector or the context. While several evidence from the developed economies show that employee development has a strong positive impact on performance (Goh and Ryan, 2002), the strength of the relationship for the Kenyan firms was found to be moderately

weak with b value .037 at the significance level of .788. A possible explanation is that adoption of technology in the developed economies has reduced the cost of employee training and development unlike in developing economies where advanced training in engineering and product development can only be accessed from the developed countries. This makes such employee development programmes expensive (Parnell, 2011; Bhatnagar, 2006; Nonaka, 1994). A possible explanation is that the firms prefer to 'poach employees' rather than invest in employee develop programmes (Calantone et. al., 2002).

From the results of the analysis it is clear that most of the factors making innovative capability have a positive influence on performance. Even though technological innovation had a negative correlation, overall the results show that innovative capability has a positive influence on firm performance. As a result hypothesis H₁ that '*innovative capability has a significant influence on performance of large manufacturing firms in Kenya*' could not be rejected.

5.3. Corporate Political Activity and the relationship between Innovative Capability and Firm Performance

The second objective of the study was to establish the influence that corporate political activity has on the relationship between innovative capability and performance. The measures for innovative capability and firm performance were presented in section 5.2. Corporate political activity measured the firms with regard to their degree of lobbying and advocacy, public/ government relationships and industry alliances.

As indicated earlier the model on the relation between innovative capability and performance shows that three factors of innovative capability (research and development intensity, internal process innovation and employee development) have a positive influence on performance. When corporate political activity is introduced in the model the strength of the relationship between innovative capability and performance is enhanced. The rise in the value of R^2 shows that factors making up innovative capability when combined with corporate political activity explain about 20 percent of firm performance. This is a 10 percent increase from the effect of innovative capability alone.

The main finding regarding this objective is that corporate political activity has a strong moderating effect on the relationship between innovative capability and firm performance. This finding conforms to theoretical arguments which assert that corporate political activity affects firms' intangible resources (Tian et. al., 2009; Zhilong, 2009; Photis, 2003). Barney (2001) for instance asserted that different firms have different resources, and if they chose political strategies, that are valuable and cannot be imitated, would obtain sustainable competitive advantage and economical benefit.

The finding confirms theoretical postulation that tangible resources such as raw materials and technology can easily be imitated while intangible resources such as political image and reputation or relational are difficult to imitate and may enable firms outwit competition (Barney, 1991). The findings also support assertions by dynamic capability approach that flexible and timely alignment of resources to environment and development of capabilities to effectively manage the political environment is critical for

performance (Teece, 2009; Teece and Pisano, 1994). The results further support prior research which shows that corporate political activity has a significant positive effect on the application of resources and eventual performance (Song et. al., 2011; Keillor et. al., 2004; Stuart, 2000).

In this study public/ government alliances is found to have the strongest positive effect on performance. This finding is similar to previous studies which established that the nature of relationship between government and firms influences resource acquisition and application and eventual firm performance (Bellangar and Edwards, 2006; Stuart, 2000; Gulati et. al., 2000). The finding by Keillor et. al., (2009) and Parnell, (2011) in US and Morita et. al., (1986) in Japan respectively also established that relation with government had strategic benefits. A possible explanation is that public government alliances increase access to information, and to raw materials and other critical inputs in the innovative processes (Keillor et. al., 2009; Hilman et. al., 2004). It is also possible that through such alliances the firms benefit from trade protectionist practices which facilitate access to unique resources. The result suggests that public/ government alliances are useful strategies for managing the external political environment to enhance innovative capability and subsequent improved performance. Firms that integrate corporate political activity in their innovative strategy can enhance their performance as they can easily access and participate in public policy formulation process to either influence policy direction or design internal strategies to mitigate the impact of policy.

However, different factors of corporate political activities (lobbying and advocacy, public/private alliances and industry alliance) have different effect on the relationship between innovative capability and performance. For example while public/ government alliance had the most significant positive effect followed by lobbying and advocacy, industry alliances registered a negative effect. The positive influence of lobbying and advocacy shows that industry groupings are essential in safeguarding intangible resources. Similar findings were made by Egbetokun et. al, (2007).

Results relating to industry alliances which showed a negative correlation to performance indicate that not all corporate political activity factors have a positive moderating effect on the relation between innovative capability and performance. This finding that industry alliance is not an effective performance moderator contradicted previous research by Stuart (2000) who found that organizations with large and innovative partners perform better than comparable firms that lack such partners. In the case of Kenya it was evident that firms did not practice industry alliance. This shows weak knowledge sharing initiatives and low levels of inter- industry collaboration. Alternatively firms prefer collaborative initiatives through membership to lobby groups rather than one-on-one associations. Overall the findings show that corporate political activity has a strong influence on the relationship between innovative capability and performance. Hypothesis H₂ that *'corporate political activity has a significant influence on the relationship between innovative capability and performance of large manufacturing firms in Kenya'* could therefore not be rejected.

5.4. Competitive Strategy and the relationship between Innovative Capability and Firm Performance

The third objective of the study was to establish the influence that competitive strategy has on the relationship between innovative capability and performance. This objective was realized by measuring the 112 firms with regard to their degree of innovative capability, competitive strategy (cost leadership, differentiation and focus) and performance.

The model summary indicated that the factors making up innovative capability have a combined correlation R value of .305, which shows that there was a strong relationship. The value of the adjusted R^2 shows that factors that make up innovative capability can explain only 5 percent of performance. When combined with competitive strategy the two variables have a combined correlation R value of .420, and the value of the adjusted R^2 increases to .106 meaning factors that make up innovative capability can explain about 10 percent of performance. This shows that the introduction of competitive strategy enhanced the influence of innovative capability and indicates that there was a moderately strong positive correlation between the variables. The findings agree with most previous research (Waweru, 2011; Kemal, 2010; Erdil, 2009) which demonstrate that innovative capability and competitive strategy factors impact firm performance singularly as do interactions among them. In terms of theory the findings offer support for the suggestions that firms must shift focus from just the main effects of innovative capability and competitive strategy to examining the synergies that can emerge from their interaction as well. However, there is empirical value in assessing the main effects of innovative capability and competitive strategy variables.

For large manufacturing firms, the strongest moderator on the relation between innovative capability and performance is cost leadership strategy. This is shown by the results of the study which confirms theory and previous evidence regarding this moderating effect (Parnell, 2011; Keillor et. al., 2009; Hoang, 1998; Guan and Ma, 2003). The suggestion by Fuchs et. al., (2000) that cost leadership strategy enables firms to produce large quantities of undifferentiated products could be true for Kenya where the growing middle income class is the largest market for the products. The fact that most of the respondent firms were from the food and beverage and chemical and allied sectors where the range of product differentiation is limited could also have affected the results.

Study results show that focus strategy moderates the effect of innovative capability on performance. This is in line with previous research by Photis (2003) and Hashim et. al., (2000) which established that firms that pursue focus strategy enhanced their performance. Malina and Selto (2000) also pointed out that focus strategy facilitates the influence of innovative activities. This finding suggests that manufacturing firms in Kenya have segmented their markets. For Kenya the possible explanation is that the focus strategy enables the firms to manage production costs and maximize profits. The firms may therefore be focusing production on offerings for the middle income population because consumers from the high end of the market may be more sensitive to the value propositions being offered and their loyalty may waver. Contrary to previous research (Waweru, 2011) this study found that differentiation strategy when paired with either cost leadership or market focus strategy had a negative influence on the relationship between innovative capability and performance. In the case of Kenya, responses relating to

differentiation strategy suggest that the concepts of cost leadership and product differentiation have not been fully understood. It is also possible that while the concepts may be understood, the manufacturing sector is still at the level of value addition to agricultural products and therefore focuses on mass production of consumer goods. Linking the low score on differentiation to the low levels of technological innovation, further confirms the findings of Egbetokun et. al., (2007), that in Africa manufacturing firms are not adequately investing in technological innovation. The findings imply that understanding the roles of innovative capability and competitive strategy is crucial for predicting performance (Parnell, 2011; Knight and Cavusgil, 2004).

In spite of the low effect of differentiation strategy the influence of cost leadership was positive and as such the hypothesis H₃ that *'competitive strategy has a significant influence on the relationship between innovative capability and performance of large manufacturing firms in Kenya'* could not be rejected.

5.5. The influence of Corporate Political Activity on Innovative Capability, Competitive Strategy and Firm Performance

The fourth objective of the study was to establish the influence that corporate political activity has on the relationship between innovative capability, competitive strategy and performance. From results of the study it was established that innovative capability and competitive strategy combined have a correlation R value of .554, which shows that there was a significant relationship. The value of the adjusted R² was .215 meaning that three constructs can explain about 22 percent of performance. The F ratio was 4.571 at p<005, showing a significant level of predicting results using the model. The introduction of

corporate political activity enhances the influence of innovative capability and competitive strategy on performance by 12 percent from 10.7 to 21.5. This finding conforms to theoretical arguments which assert that intangible resources such as networks, associations and political strategies are difficult to imitate and influence firm performance (Helfat and Peteraff, 2003; Lawson and Benson, 2001; Gulati et. al., 2000). The findings also support previous literature which established that corporate political activity is a critical predictor of resource application and competitive strategy practices (Keillor et. al., 2009; Hilman et. al., 2004; Reihben and Schuller, 2006).

As expected both corporate political activity and competitive strategy impact the relationship between innovative capability and performance. The influence of corporate political activity on innovative capability consistently increased even when all the other variables were introduced. This is expected because the political operating environment is highly dynamic and has potential to impact business in drastic ways (Keillor et. al., 2009). Most of the firms seem to engage in corporate political activity which pays in terms of improving performance at 50 percent.

Although previous research showed the prominent role of industry alliances on performance (Keillor et al., 2009; Hilman et al., 2009) this study failed to show significance of the factor. Instead, the evidence shows that firms give greater focus to lobbying and advocacy and public/government alliances. The results of this study demonstrate that innovative capability and competitive strategy factors impact performance as do interactions among them with corporate political activities. Thus, the

study offers support for the argument that research must move beyond approaches that infer a direct causal link to one that integrates multiple variables. Overall corporate political activity has a strong influence on the relationship between innovative capability, competitive strategy and performance. This study sought to fill this knowledge gap. The hypothesis H₄ that *corporate political activity has a significant effect on the relationship between innovative capability, competitive strategy and performance of large manufacturing firms in Kenya* could therefore not be rejected.

5.6. Joint effect of Innovative Capability, Corporate Political Activity and Competitive Strategy on Firm Performance

The fifth objective of the study was to establish if the relationship between innovative capability, corporate political activity and competitive strategy had a significant effect on performance. From the results of the various regression analyses it is clear that when the factors making up innovative capability, corporate political activity and competitive strategy are combined results of the regression analysis show a combined correlation R value of .554 at significant level of .001. The value of R² is .307, meaning that factors making up the three variables when combined explain 30 percent of firm performance.

The results reveal that innovative capability factors impact performance, confirming H₁. Corporate political activity and competitive strategy are also found to have positive correlation with performance confirming H₂ and H₃. Corporate political activity was found to have a positive and significant influence on the relation between innovative capability, competitive strategy and performance thereby confirming H₄. Evidence indicates that while each of the variables has an influence on performance, their joint

effect rises significantly to explain variance in performance at 50 percent. This shows that various factors associated with the internal and external environment have an influence on performance in addition to the interaction among them. As a result the hypothesis H₅ that *the relationship between innovative capability, corporate political activity and competitive strategy has a significant effect on performance of large manufacturing firms in Kenya* could not be rejected. No previous inquiry had been done on this relationship.

5.7 Chapter Summary

In this chapter the findings and results of each hypothesis test are presented. The findings on the nature of the relation between the factors making up each of the variables and performance are presented and discussed against the study objectives. Presentations of the results are followed by extensive discussion in light of theory and evidence. Most of the findings conform to previous research and show support for the theories on which the study is anchored.

The nature and strengths of the established relation are discussed within the Kenyan context. This will inform the extent to which the findings can be generalised. Arising from the results conclusions have been made on the nature of the relation against the research hypotheses. Study results show support for all the hypotheses.

CHAPTER SIX

SUMMARY, CONCLUSION AND RECOMMENDATIONS

6.1 Introduction

This chapter presents the conclusions and recommendations of the study. The conclusions are inferred from the key findings and discussion. Summary of the results are presented highlighting the major findings against the objectives of the study. Main recommendations and how they have implications on policy, theory and practice are also presented. Finally, direction for future research is given.

6.2 Summary of Findings

This study was conducted using the survey method. The main objective of the study was to determine the effect that corporate political activity has on the relationship between innovative capability, competitive strategy and performance. The specific objectives were to establish the influence of innovative capability on performance and that of corporate political activity on the relationship between innovative capability and performance. The third objective was to determine the effect of competitive strategy on the relationship between innovative capability and performance. The fourth objective was to determine the effect of corporate political activity on the relationship between innovative capability, competitive strategy and performance. The final objective was to establish if the relationship between innovative capability, corporate political activity and competitive strategy had a significant effect on performance.

A total of 112 survey questionnaires were administered to managers from the manufacturing industries. Multiple regressions and ANOVA were adopted to test 5 hypotheses as developed in this study. Descriptive statistics reveal that most large manufacturing firms in Kenya are limited companies that are privately owned. Majority of them have all their branches in Kenya. Most of the firms were established before 1990 with 28 percent having been established before 1970.

Empirical analysis of the data indicates that overall the various study variables have varying levels of influence on performance. While, innovative capability was generally found to have a positive relationship with performance data on individual factors making innovative capability showed that research and development intensity had the strongest contribution to the overall impact that innovative capability has on performance. This was followed by internal innovation processes and employee development respectively.

Corporate political activity was found to have a strong positive effect on all the other variables. However, of the three factors making corporate political activity, industry alliances impacted negatively on the relationship between innovative capability and performance. Although competitive strategy had an overall positive effect on the relationship between innovative capability and performance, product differentiation strategy was found to have a negative impact.

Table 6.1: Summary of Empirical Results

Hypotheses	Empirical Evidence
H ₁ : Innovative capability has a significant influence on performance of large manufacturing firms in Kenya'	Supported
H ₂ : Corporate political activity has a significant influence on the relationship between innovative capability and performance of large manufacturing firms in Kenya'	Supported
H ₃ : Competitive strategy has a significant influence on the relationship between innovative capability and performance of large manufacturing firms in Kenya'	Supported
H ₄ : Corporate political activity has a significant effect on the relationship between innovative capability, competitive strategy and performance of large manufacturing firms in Kenya	Supported
H ₅ : The relationship between innovative capability, corporate political activity and competitive strategy has a significant influence on performance of large manufacturing firms in Kenya	Supported

As presented in Table 6.1, all the hypotheses were supported by the study findings. H₁ was supported by three of the hypothesized innovative capability factors, which include internal innovation processes, research and development intensity and employee development. H₂ was supported by two of the hypothesized corporate political activity indicators, namely lobbying and advocacy and public/government alliances, while H₃ was supported by two of the hypothesized competitive strategy indicators, of cost leadership and market focus. H₄ and H₅ which were testing the effect that corporate political activity has on the relationship between innovative capability, competitive strategy and

performance; and the effect of the interaction between innovative capability, corporate political activity and competitive strategy on performance respectively were also supported. The summary of analysis and results on the relation between each of the study variables and firm performance are presented subsequently.

6.2.1 Innovative Capability

The study began by investigating the correlation between the various factors that make up innovative capability and performance. Here it was found that; R&D intensity had the greatest impact on performance followed by internal process innovation and employee development respectively. Technological innovation had a negative correlation with performance. This finding agrees with previous inquiry which established that different aspects of innovative capability have varying influence on firm performance (Terzvioski and Samson, 2007; Hilman et. al., 2004; Richard et. al., 2004). Results may also differ depending on the performance measure used (Goh and Ryan, 2002). The findings suggest that although the various factors making innovative capability impact performance in different ways, an integrated approach to innovative capability that encompasses all the factors may enhance performance for large firms. Firms should therefore integrate other factors into the intensity of R&D and internal innovation processes which are stronger determinants of performance.

The findings show support for the assertion by Barry et. al., (2012) and Parnell, (2011) that investment in R&D per se does not enhance performance rather it is how firms configure their R&D investments with other resources and internal structures such as

personnel, capabilities and decision making processes that determines a firm's ability to implement its innovation agenda. Although the intensity of R&D plays a prominent role in enhancing the effect of innovative capability on performance, the low scores on technological innovation show that some factors of innovative capability inhibit the cumulative effect of innovative capability on performance.

6.2.2 Corporate Political Activity

The findings on the influence of corporate political activity on all the study variables are consistently strong. The results show that corporate political activity positively impacts firm performance ($R = .551$, $F = 5.898$, $p < .001$). Indeed, evidence was found that one aspect of corporate political activity (public/government alliances) has a strong moderating effect on the innovative capability-performance relationship ($R = .066$, $p < .001$). The findings confirmed previous theoretical and empirical assertions that corporate political activity has a significant effect on performance (Zhilong, 2009; Tian et. al., 2008). A possible explanation is that public/government alliances increases access to public information thereby facilitating lobbying on policy reforms (Stuart, 2000). Alternatively, public/government alliance may enable large firms to enjoy certain benefits that enhance performance (Hilman et. al., 2004).

In contrast, industrial alliances show a negative correlation to performance. Although this supports the findings of Keillor et. al., (2009) that some corporate political activity factors are significantly related to performance than others, it contradicts previous research by Stuart (2000) which found that firms that have large and innovative partners perform better than those that do not have partners. Given most of the firms are privately

owned it is possible that industry groupings and alliances happen at the owner level and may not be known to management at the operations level. Further, unlike public/government alliance where there are known frameworks for engagement, structures for industry alliances are not clear. Overall the findings confirm that corporate political activity is a crucial factor when considering innovative capability/competitive strategy /performance interactions.

6.2.3 Competitive Strategy

The results on the influence of competitive strategy on the relationship between innovative capability and performance reveal an overall positive influence. This result is consistent with theoretical arguments (Porter 1980, 1991) and previous research which found competitive strategy to have a positive impact on performance (Kiganane et al., 2012; Waweru, 2008; Weber and Polo, 2010). Analysis of factors making competitive strategy shows that cost leadership strategy has the strongest positive influence followed by market focus. Similar findings were established by Waweru, (2011) and Erdil (2009).

Unlike most prior research product differentiation was found to have a negative effect on the relationship between innovative capabilities on performance. Photis (2003) studied the relationship between competitive strategies and performance and found a positive effect with the strongest being economies of scale and differentiation. Mugo et al., (2012) also found that product differentiation was a key strategy for the banking sector. Overall the study confirmed the position that innovative capability/ competitive strategy interaction impacts performance. It is clear that the two make different contributions to explaining performance.

6.2.4 Firm Performance

With respect to firm performance the results confirm that various internal and external factors interact to impact performance. While the constructs may have a positive linear influence on performance, factors in the internal and external environment interact with this relationship to either enhance or inhibit outcomes. In this study it is clear that although innovative capability has a positive effect on performance, corporate political activity and competitive strategy interact with innovative capability to enhance the relationship. Specifically, corporate political activity (including public/government alliances, lobbying and advocacy and industrial alliances) explains 26% of the variance in performance.

This finding offers support for evidence that the relationship between external environmental factors and performance is intricate (Hilman et al., 2009). At the very least, the findings suggest that further research is needed regarding the role of political activity factors such as industry alliances. These findings show that integration of corporate political activity and competitive strategies into innovative capability strengthens certain factors of innovative capability and enhances performance.

6.3 Conclusion

Although many variables are important and firms can use varying approaches, there is a clear pattern for the group of firms investigated. Given such conditions, managers are tempted to view innovative capability as key to success. The findings present support for the assertion that under dynamic conditions, a strategy focused on strengthening capabilities and opportunism can enhance firm performance (Song et. al., 2007; Teece

and Pisano, 1994). However, managers must match these actions within context-specific strategic decision making process. Indeed managers should consider emerging alternatives such as new organizational forms, networks and sophisticated information technology systems as responses to environmental change (Gulati et. al., 2000).

From the results it is concluded that: innovative capability strategy that places emphasis on corporate political activity and competitive strategy is likely to attain superior performance; innovative capability with intense R&D and employee development enhances performance; lobbying and advocacy and public/government alliances have a prominent effect on performance; and the interaction effects of cost leadership strategy and market focus with factors making innovative capability significantly enhances performance.

The findings supports the theoretical works in strategic management on innovative capability (Keillor et. al., 2009) and extends the empirical findings of the innovative capability researchers (Song et. al., 2011; Sturat, 2010; Hilman et.al., 2004) beyond linear relationship with performance. By meeting the five main objectives outlined above, the study has provided a method for determining the degree to which corporate political activity influences the relation between innovative capability and performance. The study has also confirmed the predictions made by many innovative capability researchers regarding the interaction between internal and external factors with the innovative capability of firms. The study has provided new insights about the supportive corporate political activity approaches that firms can use to enhance performance.

It is also evident that a firm's strategy underlies its theory of how to compete in the market successfully. Whether deliberate or emergent, a firm needs to address in the best way the critical political processes and how it can take advantage of these to generate competitive advantage for itself. Under dynamic conditions, a strategy focused on integrating resources to external environment facilitates innovative capability and eventual performance (Baretto, 2010; Teece, 2009). Managers must therefore match strategic decision making process with external contextual realities through corporate political activity and also consider emerging alternatives such as industry alliances and technological innovation systems as possible responses to changes in the political operating environment.

Although the study shows the importance of corporate political activity on innovative capability, it does not claim that other factors are not significantly related to innovative capability. Instead it is argued that various internal and external factors can be beneficial to the innovative capability of the firms as has been discussed in theoretical and empirical literature (Keillor et al., 2009; Hilman et al., 2009). These dimensions require further attention from academicians.

6.4 Implications of the Study

This study proposed an integrated approach towards enhancing the influence of innovative capability on performance. The integrated approach considered internal and external environment factors as critical to firm performance. The study has determined that various corporate political activity and competitive strategy factors enhance or inhibit the influence of innovative capability on firm performance. From the study results some important findings that impact theory, policy, practice and methodology were identified. Some of these implications are presented in this section.

6.4.1 Implications for Theory

As far as contribution to theory is concerned the findings contribute to theoretical perspectives of resource base view by offering evidence that unique, inimitable, tangible and intangible resources may increase our understanding of firm performance. These resources are both internal and external. The results confirm that a firm's ability to modify resources to counter environmental changes is central to sustainable performance. Firms should therefore use their intangible advantage to address future market needs. The scope of the resource based view should therefore extend to effectively cover intangible resources in the external environment.

The study contributes to the dynamic capabilities perspective by showing that flexible and timely adaptation of resources to the external environment enhances performance. And also shows support for the proposition that development of managerial capability to effectively address changes in the external environment is important. However, more theoretical propositions are required regarding the question of how intra-industry relations enable firms to respond to environmental changes in a timely and flexible manner.

With regard to theories on innovation this study finds strong support for the argument that firms that take advantage of the complex interactions between individuals and organizational and environmental factors outperform those that do not (Erdil et.al., 2009). Evidence also shows support for many prior studies that are anchored on resource based view, dynamic capabilities and theories on innovation that link the interaction between internal and external capabilities to superior performance (Richard et al., 2004; Song et al., 2011).

In making contribution to innovative capability literature this study develops a model that integrates the constructs of innovative capability, corporate political activity, competitive strategy and firm performance into a comprehensive framework. The research model as proposed in this study may thus be a useful tool for the management of a firm's innovative capability. And shows it is possible to integrate concepts and theoretical frameworks from other disciplines such as political science into strategic management literature.

6.4.2 Implications for Policy

Kenya which is a developing economy and aspires to be a middle income country by the year 2030 is undergoing a transition from agrarian based to knowledge based economy. As the findings of the study indicate most of the manufacturing firms (80%) were established before 1990; a year that marks the onset of trade liberalization and the beginning of the era of globalization. Within this context several policy implications that can be generalized to other nations are revealed from the study sample and findings.

One, given the manufacturing sector's role in employment and wealth creation both directly and through the supply and value chains, there is need to shift the focus of public policy from non interference provision of enabling environment for business to thrive' to active industry - government collaborative approaches that address existing and anticipated political contextual factors and ensure sustainable competitive edge for the sector. A clear policy framework for continuous dialogue between the government and manufacturing firms should be developed and enforced. Admittedly there have been government- private sector round tables aimed at identifying and resolving investment bottlenecks. Such forums should be strengthened to with strong institutional and operational frameworks that ensure sustainable formulation, implementation and monitoring and evaluation as well as reporting on agreed policies.

Two, investment in enabling technological infrastructure should be prioritized both at industry and public policy levels. Adequate resources should be mobilized including provision of incentives for private sector to invest in emerging sophisticated technology in order to enhance uptake of technological innovation and seamless progression to knowledge based manufacturing. At the firm level R&D on technological innovations should be strengthened and feasible technologies adopted for the sector to remain relevant in the knowledge driven global market.

Three, employee development is critical for sustainable competitiveness of the firms and the nation as a whole. The finding that in most of the respondent firm's employee development factor is weak shows lack of focus on industrial development programmes. Clear policies should be put in place regarding employee development at firm level. This should be coupled with employee motivation and retention strategies. Merit based succession plans should also be developed to ensure knowledge gaps do not arise. In addition technology based approaches to employee development should be embraced to cut down on costs. At the national level the National Industrial Training Authority and other related institutions should be strengthened.

6.4.3 Implications for Managerial Practice

Towards managerial practice a number of implications can be drawn from the study. First, managers of manufacturing firms have to be very conscious of their political operating environment and develop a thorough understanding of the various corporate political strategies to use for the benefit of the firm. Drawing from the research finding that corporate political activities interact with internal factors to impact innovative capabilities and eventual performance, managers should integrate corporate political strategy in the overall business strategy.

Second, the finding that the influence of technological innovation on performance is very low should worry managers. R&D intensity should be supported by technological innovation and uptake of technology in innovation prioritized. Initiatives aimed at intensifying R&D should be supported by available knowledge based approaches. And managers must be conscious that the emerging frontier of industry competition is technological innovation. Firms that do not embrace technology for innovation will not survive. Third, innovative capability strategies should be subjected to continuous review to integrate corporate political activities that moderate the influence of the external political environment, and also link them to the firms overall competitive strategy. Internally, efforts aimed at enhancing innovative capability should focus on creating synergies within all factors making up innovative capability. Fourth, in light of the unprecedented global competition, capacity to formulate and execute winning strategies and especially differentiation strategy should be developed. Finally, industry alliances should be embraced to facilitate knowledge sharing and technology transfer.

6.4.4 Implications for Methodology

In terms of methodology innovative capability literature should shift focus from conceptualizing a linear relation between innovative capability and performance to an integrated approach that incorporates aspects in both the internal and external environments. As the results of this study show interaction between intra firm factors and political operating environment can either enhance or inhibit firm performance. Research that focuses exclusively on innovative capability factors within the firm ignores the many external factors that are potential sources of intangible resources that firms can pursue to achieve sustainable competitive advantage.

The strong influence that corporate political activity had on all the variables in this study highlights the need to investigate the influence of corporate political activity on other variables linked to firm performance. In addition to its empirical contribution, this research focuses the attention of researchers and managers on the crucial role that political strategy plays in developing market-focused innovative capabilities and shaping the firm's competitive position.

6.5 Limitations of the Study

The results of this study should be assessed with recognition of some of its limitations. One, in terms of conceptualization this study focused on a limited set of variables that had been strongly linked to performance in prior research. The number and comprehensiveness of factors used to operationalise the study variables is limited. This may have resulted in lack of a more robust test of the relationship existing between the various factors of the study variables.

Second, in terms of methodology, participating firms were drawn from manufacturing sector only with a relatively small sample size; this limits the generalisability of the findings to other context. Further, the cross-sectional research design used in this study may also limit the extent to which inferences can be made about the causal ordering of variables. Although the manufacturing sector that was studied provided an appropriate setting, research in other industries is required. The rapidly growing services sector may provide a meaningful setting to validate the relationships explored in this study. Finally, the study was undertaken in the context of a developing economy where variables such as cost of production and the political nature of the operating environment may not accurately reflect other contexts.

6.6 Suggestions for Further Research

To further confirm the results of this cross-sectional research, the concept of innovative capability identified in this paper can be refined, validated and tested using other research methods, including case studies, surveys and longitudinal research. Exploratory case studies can provide more textual background into innovation variables. And survey research will help make generalisations about the innovative capabilities acceptable. Similar studies can also be undertaken on a broader scale than the listed manufacturing firms that were used in this case.

Further studies may involve big sample size and possibly firms spanning across sectors, and also consider additional factors of the variables of this study. The study variables can also be measured using different parameters. As researchers attempt to clarify the nature and consequences of synergies between innovative capability, corporate political activity and competitive strategy, integration of specific innovative capability and competitive strategy issues is a ripe area for research.

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APPENDICES

APPENDIX I

RESEARCH QUESTIONNAIRE

INTRODUCTION

Dear respondent,

This questionnaire is designed to obtain information for an academic research as part of an effort to enhance our understanding of firm performance. Data is being collected from large manufacturing firms in Kenya. The accuracy of the information you provide will be crucial to attaining the objectives of the study. The questionnaire has five main parts. Kindly respond to each of the items in the questionnaire. There is no right or wrong answer to the questions. We are interested in your general impression. The information you provide will be used for this academic purpose only and will be treated with utmost confidentiality.

NB

- 1. **Fill in your answers to all questions in the spaces provided**
- 2. **Do not indicate your name on the questionnaire**
- 3. **It is absolutely important that all the sections have a response**
- 4. **You are kindly requested that once you have taken the questionnaire, fill it in and return, within one hour after picking it**

1. FIRM CHARACTERISTICS

Please provide your demographic details below by TICKING () inside the appropriate box

- a) **Category of institution**
Incorporated Limited General Partnership

- b) **Structure of institution**
All offices based in Kenya Head Quarters in Kenya with Branches outside Kenya Other (please specify below)

- c) **Ownership of the firm**
Private Public

- d) Year established.....

- e) Number of employees.....

- f) Designation.....

- g) **Length of time in current institution**
2 years & below 3 -5 years 6- 8 years 9 years and above

Instructions

The following questions employ a 1-5 scale, with the answers ranging from “Not at all” to “To a very large extent”. Please **TICK** in the box representing the number that best matches your opinion. **All questions should have only one answer.**

Appendix I cont...

QUESTIONS						
2. INNOVATIVE CAPABILITY						
To what extent do you think the following statements are true about your firm?						
	Innovative Capability	Not at all	To a less extent	To a moderate extent	To a large extent	To a very large extent
1.	We select key personnel in each functional department into the innovation process					
2.	We have good coordination and cooperation of R&D, marketing and manufacturing department					
3.	We adopt accessed knowledge into daily activities					
4.	We match core capabilities with market needs					
5.	Our feedbacks from manufacturing to design and engineering are quick and high quality					
6.	Our mechanisms for transferring technology from research to product development are good					
7.	We integrate market and customer feedback into technological innovation process					
8.	We regularly analyse and monitor performance of competing products					
9.	We provide steady capital supplement to innovation activity					
10.	Our manufacturing department is able to transform R&D output into production					
11.	We have high-level integration and control of the major functions with the company					
12.	We have a clear plan of new product and process with measurable milestones					
13.	The number of new products we develop has progressively increased in the last five years					
14.	The number of new procedures and ways of action we develop have progressively increased in the last five years					
15.	The amount of rewards given to employees has increased over the last five years					
16.	We have developed more new training programmes in the last five years					
17.	The number of our new education events has increased over the last five years					

Appendix I cont...

3. COMPETITIVE STRATEGY						
Please indicate the extent to which you think the following statements are true about your firm						
	Competitive Strategy	Not at all	To a less extent	To a moderate extent	To a large extent	To a very large extent
18.	We focus production on high volumes of standardized products					
19.	We pay attention to special skills for process engineering					
20.	We design products for ease of manufacturing					
21.	We maintain a strong focus on qualitative assessment and incentives					
22.	We pay attention to the level of coordination between functions of R&D, product development and marketing					
23.	We develop and introduce major and frequent product innovations to the market					
24.	We invest in resources of special application and interest in our area of operation					
25.	We dominate the market in the relevant technology for our leading product					
26.	We use market segmentation as one of strategies for competitiveness					
4. CORPORATE POLITICAL ACTIVITY						
To what extent do you think the following statements are true about your firm?						
	Corporate Political Activity	Not at all	To a less extent	To a moderate extent	To a large extent	To a very large extent
27.	We are member of KAM/KEPSA/ Other					
28.	We frequently discuss strategies for developing personal relationships with key external stakeholders					
29.	Key stakeholders are always represented in our Board					
30.	We usually engage policy makers in discussions on how to improve the business regulatory environment					
31.	Our corporate social responsibility activities are aligned to national development priority					
32.	We have programs that focus on developing advocacy and negotiation skills for our top management					
33.	We lobby as a group where there is collective action problem					

Appendix I cont...

34.	We have a department designated to track policies and regulations that can impact our business					
35.	We participate/ contribute to public programmes/ projects					
FIRM PERFORMANCE						
		Strongly agree	Disagree	Neutral	Agree	Strongly Agree
36.	Our total sales have grown dramatically in the last five years					
37.	Our return on sales has increased over the last five years					
38.	Our market share in the sector has grown in the last five years					
39.	We have lost few customers in the last five years					
40.	Our customers are happier than they were in the last five years					
41.	Our profit margin has improved in the last five years					
42.	The proportion of sales accounted for by the sale of new products has grown in the last five years					
43.	Our wastage is lower than it was five years ago					
44.	Our production lines have been upgraded to reduce green house emissions in the last five years					
k45.	The energy usage per sales has gone down in the last five years					
46.	We have developed new partnerships over the last five years					
47.	Our employee satisfaction has gone up in the last five years					
48.	Our employee retention has been very good over the last five years					
49.	A large proportion of our budget has been in employee skills development in the last five years					

NAME OF ORGANIZATION

RESPONDENTS NAME

TELEPHONE NUMBER

PHYSICAL ADDRESS

RUBBER STAMP AND DATE.....

APPENDIX II
LARGE MANUFACTURING FIRMS IN KENYA

Sector: Building, Construction and Mining (15)			
Company/ Sector	Company/ Sector	Company/ Sector	Company/ Sector
Athi River Mining Ltd	East Africa Portland Cement Co. Ltd	Kenbro Industries Ltd	MalindiSaltworks Ltd
Bamburi Cement Limited	Homa Lime Co. Ltd	Kenya Builders & Concrete Ltd	Manson Hart Kenya Ltd
Bamburi Special Products Ltd	KarsanMurji& Company Limited	Krystalline Salt Ltd	Mombasa Cement Ltd
Central Glass Industries Ltd	Orbit Enterprises Ltd		
Sector: Food, Beverages and Tobacco (154)			
Africa Spirits Ltd	James Finlay Kenya Ltd	Al-Mahra Industries Industries Ltd	Lari Dairies Alliance Ltd
Agriner Agricultural Development limited	Jetlak Foods Ltd	Alliance One Tobacco Kenya Ltd	London Distillers (K) Ltd
Agro Chemical & Food Company Ltd	Kabianga Dairy Ltd	Alpha Fine Foods Ltd	Mafuko Industries Ltd
Belfast Millers Ltd	Kamili Packers Ltd	Alpine Coolers Ltd	Manji Food Industries Ltd
Bidco Oil Refineries Ltd	Kapa Oil Refineries Ltd	Annum Trading Company Limited	Mastermind Tobacco (K) Ltd
Bio Foods Products Limited	Karirana Estate Ltd	Aquamist Ltd	Mayfair Holdings Ltd
Breakfast Cereal Company (K) Ltd	Kenblest Limited	Arkay Industries Ltd	Menengai Oil Refineries Ltd
British American Tobacco Kenya Ltd	Kenya Breweries Ltd	Brookside Dairy Ltd	Kenya Tea Development Agency
Broadway Bakery Ltd	Kenya Nut Company Ltd	Bunda Cakes & Feeds Ltd	Milly Fruit Processors Ltd
Buzeki Dairy Ltd	Kenya Seed Company Ltd	Candy Kenya Ltd	Mini Bakeries (Nbi) Ltd
C.Czarnikow Sugar(EA) ltd	Kenya Sweets Ltd	Capwell Industries Ltd	Miritini Kenya Ltd
Cadbury Kenya Ltd	NesFoods Industries Ltd	Carlton Products (EA) Ltd	Mombasa Maize Millers Ltd
Centrofood Industries Ltd	Nestle Kenya Ltd	Chai Trading Company Limited	Mount Kenya Bottlers Ltd
Chemelil Sugar Company Ltd	Nicola Farms Ltd	Chirag Kenya Limited	Mumias Sugar Company Ltd
Coast Maize Millers Ltd	Njoro Canning Factory(Kenya) Ltd	Coast Salt Works Limited	Mzuri Sweets Ltd
Coca-Cola East Africa Ltd	Palmac Oil Refiners Ltd	Coastal Bottlers Limited	Nairobi Bottlers Ltd
Confec Industries (E.A) Ltd	Palmhouse Dairies Ltd	Diamond Industries Ltd	Nairobi Flour Mills Ltd
Corn Products Kenya Ltd	Patco Industries Limited	Dominion Farms	Nairobi Mineral Water Co. Ltd
Crown Foods Ltd	Pearl Industries Ltd	E & A Industries Ltd	NAS Airport Services Ltd
Cut Tobacco (K) Ltd	Pearly Waters Limited	Kakuzi Ltd	Pwani Oil Products Ltd
Deepa Industries Ltd	Pembe Flour Mills Ltd	Eldoret Grain Mills Ltd	Rafiki Millers Ltd
Del Monte Kenya Ltd	Premier Flour Mills Ltd	Eldoret grains Ltd	Razco ltd

Appendix II cont ...

East African Breweries Ltd	Premier Food Industries Limited	Equator Bottlers Ltd	Re-Suns Spices Limited
East African Sea Food Ltd	Proctor & Allan (E.A.) Ltd	Erdemann Co. (K) Ltd	Rift Valley Bottlers Ltd
Eastern Produce Kenya Ltd	Promasidor (Kenya) Ltd	Excel Chemicals Ltd	Sigma Supplies Ltd
Farmers Choice Ltd	Trufoods Ltd	Global Tea & Commodities (K) Ltd	Smash Industries Ltd
Frigoken Ltd	UDV Kenya Ltd	Gold Crown Beverages	Softa Bottling Co. Ltd
Giloil Company Limited	Unga Group Ltd	Gold Crown Beverages (K) LTD	Spectre International Ltd
Glacier Products Ltd	United Millers Ltd	Gold Crown Foods (EPZ) Ltd	Spice World Ltd
Global Allied Industries Ltd	Usafi Services Ltd	Kensalt Ltd	Spin Knit Dairy Ltd
Global Beverages Ltd	Uzuri Foods Ltd	Kenshop Supermarket (TI) Hot Bread	Sunny Processors Ltd
Global Fresh Ltd	Valley Bakery Ltd	Kenya Tea Growers Association	Super Bakery Ltd
Gonas Best Ltd	ValuePak Foods Ltd	Kenya Tea Packers Ltd (KETEPA)	Swan Industries Limited
Hail & Cotton Distillers Ltd	W. E. Tilley (Muthaiga) Ltd	Kenya Wine Agencies Limited	Swan Millers Ltd
Happy Cow Ltd	Wanainchi Marine Products (K) Ltd	Keroche Industries Ltd	Western Kenya Express Suppliers
Highlands Cannery Ltd	West Kenya sugar company limited	Kevian Kenya Ltd	Wrigley Company (E.A.) Ltd
Highlands Mineral Water Co. Ltd	James Finlay Kenya Ltd	Kibos Sugar and Allied Industries	Lari Dairies Alliance Ltd
Homeoil	Jetlak Foods Ltd	Kisii Bottlers Ltd	London Distillers (K) Ltd
Insta Products (EPZ) Ltd	Kabianga Dairy Ltd	Koba Waters Ltd	Mafuko Industries Ltd
Jambo Biscuits (K) Ltd	Kamili Packers Ltd	Kwality Candies & Sweets Ltd	Manji Food Industries Ltd
Sector: Chemical and Allied (71)			
Anffi Kenya Ltd	Magadi Soda Company Ltd	Continental Products Ltd	Orbit Chemical Industries Ltd
Basco Products (K) Ltd	Maroo Polymers Ltd	Cooper K- Brands Ltd	Osho Chemicals Industries Ltd
Bayer East Africa Ltd	Match Masters Ltd	Cooper Kenya Ltd	Pan Africa Chemicals Ltd
Beiersdorf East Africa Ltd	Metal Refinery EPZ Ltd	Crown Berger Kenya Ltd	PolyChem East Africa Ltd
Blue Ring Products Ltd	Metoxide Africa Ltd	Crown Gases Ltd	Procter & Gamble East Africa Ltd
BOC Kenya Limited	Milly Glass Works Ltd	Decase Chemicals (Ltd)	Pyrethrum Board of Kenya
Buyline Industries Ltd	United Chemical Industries Ltd	Deluxe Inks Ltd	PZ Cussons Ltd
Carbacid (CO2) Limited	Oasis Ltd	Desbro Kenya Limited	Rayat Trading Co.Ltd
Chemicals & Solvents E. A. Ltd	Rumorth EA Ltd	E.Africa Heavy chemicals (1999) Ltd	Reckitt Benckiser (E.A.) Ltd
Chemicals and Solvents E.A. Ltd	Rumorth East Africa Ltd	Eastern Chemicals Industries Ltd	Revolution Stores Co. Ltd

Appendix II cont....

Coates Brothers (E.A.) Limited	Sadolin Paints (E.A.) Ltd	Elex Products Ltd	Rosin Kenya Ltd
Coil Products (K) Limited	Sara Lee Kenya Limited	European Perfumes & Cosmetics Ltd	Soilex Chemicals Ltd
Colgate Palmolive (E.A.) Ltd	Saroc Ltd	Galaxy Paints & Coating Co. Ltd	Strategic Industries Limited
JohnsonDiversey East Africa Limited	Super Foam Ltd	Grand Paints Ltd	SupaBrite Ltd
Kapi Limited	Syngenta East Africa Ltd	Henkel Kenya Ltd	Unilever Kenya Ltd
Kel Chemicals Limited	Synresins Ltd	Imaging Solutions (K) Ltd	Murphy Chemicals E.A Ltd
Kemia International Ltd	Tri-Clover Industries (K) Ltd	Interconsumer Products Ltd	Vitafoam Products Limited
Ken Nat Ink & Chemicals Ltd	Twiga Chemical Industries Limited	Odex Chemicals Ltd	Orbit Chemical Industries Ltd
Sector: Energy, Electrical and Electronics (43)			
A.I Records (Kenya) Ltd	Metlex Industries Ltd	East African Cables Ltd	Kenwestfal Works Ltd
Amedo Centre Kenya Ltd	Metsec Ltd	Eveready East Africa Limited	Kenya Petroleum Refineries Ltd
AssaAbloy East Africa Ltd	Power Technics Ltd	Frigorex East Africa Ltd	Kenya Power & Lighting Co. Ltd
Aucma Digital Technology africa Ltd	Digitech East Africa Limited	Holman Brothers (E.A) Ltd	Kenya Scale Co. Ltd/Avery Kenya Ltd
Avery (East Africa) Ltd	Manufacturers & Suppliers (K) Ltd	IberaAfrica Power (EA) Ltd	Kenya Shell Ltd
Baumann Engineering Limited	Marshall Fowler (Engineers) Ltd	International Energy Technik Ltd	Libya Oil Kenya Limited.
Centurion Systems Limited	Mecer East Africa Ltd	Kenwest Cables Ltd	
Sector: Plastics and Rubber (66)			
Betatrad (K) Ltd	Plastics & Rubber Industries Ltd	Doshi Ironmongers Ltd	Plastic Electricons
Blowplast Ltd	Poly Propelin Bags Ltd	Dune Packaging Ltd	Raffia Bags (K) Ltd
Bobmil Industries Ltd	Polyblend Limited	Elgitread (Kenya) Ltd	Rubber Products Ltd
Cables & Plastics Ltd	Polyflex Industries Ltd	Elgon Kenya Ltd	Safepak Limited
Coast Polythene Bags	Polythene Industries Ltd	Eslon Plastics of Kenya Ltd	Sameer Africa Ltd
Complast Industries Limited	Premier Industries Ltd	Five Star Industries Ltd	Sanpac Africa Ltd
Kenpoly Manufacturers Ltd	Prestige Packaging Ltd	General Plastics Limited	Shiv Enterprises (E) Ltd
Kentainers Ltd	Prosel Ltd	Haco Industries Kenya ltd	Signode Packaging Systems Ltd
Kenya Suitcase Manufacturers Ltd	Pyramid Packaging Ltd	Hi-Plast Ltd	Silpack Industries Limited
King Plastic Industries Ltd	Qplast Industries Ltd	Jamlam Industries Ltd	Solvochem East Africa Ltd
Kingsway Tyres & Automart Ltd	Vyatu Ltd	Kamba Manufacturing (1986) Ltd	Springbox Kenya Ltd
L.G. Harris & Co. Ltd	Wonderpac Industries Ltd	Keci Rubber Industries	Sumaria Industries Ltd
Laneeb Plastics Industries Ltd	ZaverchandPunja Ltd	Nairobi Plastics Ltd	Super Manufacturers Ltd

Appendix II cont....

Metro Plastics Kenya Limited	ACME Containers Ltd	Nav Plastics Limited	Techpak Industries Ltd
Mombasa Polythene Bags Ltd	Afro Plastics (K) Ltd	Ombi Rubber	Treadsetters Tyres Ltd
Ombi Rubber Rollers Ltd	Alankar Industries Ltd	Packaging Masters limited	Umoja Rubber Products Ltd
Packaging Industries Ltd			Uni-Plastics Ltd
Sector: Textile and Apparels (68)			
Akfrica Apparels EPZ LTD	Mirage Fashionwear EPZ Ltd	FulchandManek& Bros Ltd	Mega Garment Industries Kenya Ltd
Afro Spin Ltd	MRC Nairobi (EPZ) Ltd	Image Apparels Ltd	Mega Spin Ltd
Alltex EPZ Ltd	Nakuru Industries Ltd	J.A.R Kenya [EPZ] Ltd	Metro Impex Ltd
Alpha Knits Limited	Ngecha Industries Ltd	Kamyn Industries Limited	Protex Kenya (EPZ) Ltd
Apex Apparels (EPZ) Ltd	Premier Knitwear Ltd	Kapric Apparels Ltd	Riziki Manufacturers Ltd
Ashton (Apparel EPZ Ltd	Spin Knit Limited	Kavirondo Filaments Ltd	Rolex Garment EPZ Ltd
Ashton Apparel EPZ Ltd	Spinners & Spinners Ltd	Ken-Knit (Kenya) Ltd	Rupa Mills Ltd
Baraka Apparels (EPZ) Ltd	Squaredeal Uniforms Centre Ltd	Kenya Knit Garment (EPZ) Ltd	Senior Best Garment (EPZ) Ltd
Bedi Investments Limited	Storm Apparel Manufacturers Co. Ltd	Kenya Shirts Manufacturers Co. Ltd	Shin-Ace Garments Kenya (EPZ) Ltd
Bhupco Textile Mills Limited	Straightline Enterprises Ltd	Kenya Trading EPZ Ltd	Silver Star Manufacturers Ltd
Blue Bird Garments (EPZ) Kenya Ltd	Summit Fibres Ltd	Kikoy Co. Ltd	Sin Lane Kenya (EPZ) Ltd
Blue Plus Limited	Sunflag Textile & Knitwear Mills Ltd	Lalesso Ltd	Sino Link Garments (EPZ) Ltd
Bogani Industries Ltd	Tarpo Industries Limited	Lamsons Industries Limited	Vaja Manufacturers Limited
Brother Shirts Factory Ltd	Teita Estate Ltd	Le-Stud Limited	Wildlife Works (EPZ) Ltd
Embalishments Ltd	Thika Cloth Mills Ltd	Leena Apparels Ltd	World of Kikoys
Fantex (K) Ltd	United Aryan (EPZ) Ltd	Lifeworks Shukrani Limited	UpanWasana (EPZ) Ltd
Midco Textiles (EA) Ltd	Yoohan Kenya EPZ Company Ltd	Londra Limited	YU-UN Kenya EPZ Company Ltd
Sector: Timber, Wood Products and Furniture (26)			
Comply Industries Ltd	Newline Ltd	RaiPlywoods (Kenya) Ltd	TimSales Ltd
Economic Housing Group Ltd	PG Bison Ltd	Rosewood Office Systems Ltd	WoodMakers Kenya Ltd
Eldema (Kenya) Limited	Transpaper Kenya Ltd	Shah Timber Mart Ltd	Woodtex Kenya Ltd
Fine Wood Works Ltd	Twiga Stationers & Printers Ltd	Shamco Industries Ltd	United Bags Manufacturers Ltd
Furniture International Limited	Uchumi Quick Suppliers Ltd	Slumberland Kenya Limited	Statpack Industries Ltd
Hwan Sung Industries (K) Ltd	Uneeco Paper Products Ltd	Timber Treatment International Ltd	Taws Limited
Kenya Wood Ltd	Tetra Pak Ltd		

Appendix II cont....

Sector: Pharmaceutical and Medical Equipment (32)			
African Cotton Industries Ltd	Medivet Products Ltd	Dawa limited	Revital Healthcare (EPZ) Ltd
Alpha Medical Manufacturers Ltd	Novelty Manufacturing Ltd	Elys Chemicals Industries Ltd	Universal Corporation limited
Beta Healthcare International Limited	Oss.Chemie (K)	Gesto Pharmaceuticals Ltd	Pharm Access Africa Ltd
Biodeal Laboratories Ltd	Laboratory & Allied Limited	GlaxoSmithkline Kenya Ltd	Pharmaceutical Manufacturing Co.
Bulk Medicals Ltd	Manhar Brothers (K) Ltd	KAM Industries Limited	Regal Pharmaceuticals
Cosmos Limited	Medivet Products Ltd	KAM Pharmacy Limited	Revital Healthcare (EPZ) Ltd
Laboratory & Allied Limited	Novelty Manufacturing Ltd	Pharmaceutical Manufacturing Co.	Universal Corporation limited
Manhar Brothers (K) Ltd	Oss.Chemie (K)	Regal Pharmaceuticals	Pharm Access Africa Ltd
Sector: Metal and Allied (62)			
African Marine & General Engineering	J. F. McCloy Ltd	Athi River Steel Plant Ltd	Laminate Tubes Industries
Allied Metals Services Ltd	Mecol Limited	Booth Extrusions Limited	Mabati Rolling Mills Limited
Alloy Steel Castings Ltd	Metal Crowns Limited	Brollo Kenya Limited	Nampak Kenya Ltd
Apex Steel Ltd - Rolling Mill Division	Morris & Co. Limited	City Engineering Works Ltd	Napro Industries Limited
ASL Ltd	Nails & Steel Products Ltd	Cook N Lite Limited	Specialised Engineer Co. (EA) Ltd
ASP Company Ltd	Narcol Aluminium Rolling Mills Ltd	Corrugated Sheets Limited	Standard Rolling Mills Ltd
East African Foundry Works (K) Ltd	Ndume Ltd	Crystal Industries Ltd	Steel Structures Limited
Elite Tools Ltd	Orbit Engineering Ltd	Davis & Shirliff Ltd	Steelmakers Ltd
Farm Engineering Industries Ltd	Rolmil Kenya Ltd	Devki Steel Mills Ltd	Steelwool (Africa) Ltd
Friendship Container Manufacturers	Sandvik Kenya Ltd	Doshi Enterprises Limited	Super Steel & Tubes Ltd
General Aluminium Fabricators Ltd	Sheffield Steel Systems Ltd	East Africa Spectre Limited	Tarmal Wire Products Ltd
Gopitech (Kenya) Ltd	Soni Technical Services Ltd	Kaluworks Limited	Tononoka Steel Ltd
Greif Kenya Limited	Southern Engineering Co. Ltd	Kens Metal Industries Ltd	Tritex Industries Ltd
Heavy Engineering Ltd	Welding Alloys Ltd	Kenya General Industries Ltd	Viking Industries Ltd
Hobra Manufacturing Ltd	Wire Products Limited	Khetshi Dharamshi & Co. Ltd	Warren Enterprises Ltd
Insteel Limited	Southern Engineering Co. Ltd	Kitchen King Ltd	Tritex Industries Ltd
	Welding Alloys Ltd		Viking Industries Ltd
Sector: Leather Products and Footwear (8)			
Alpharama Ltd	New Market Leather Factory Ltd	CP Shoes	East African Tanners (K) Ltd

Appendix II cont....

Bata Shoe Co (K) Ltd	C & P Shoe Industries Ltd	Dogbones Ltd	Leather Industries of Kenya Limited
Sector: Motor Vehicle Assembly and Accessories (22)			
Associated Battery Manufacturers (E.A.)	Banbros Ltd	General Motors East Africa Limited	Megh Cushion Industries Ltd
Associated Vehicle Assemblers Ltd	Bhachu Industries Ltd	Impala Glass Industries Ltd	Mutsimoto Motor Company Ltd
Auto Ancillaries Ltd	Chui Auto Spring Industries Ltd	Kenya Grange Vehicle Industries Ltd	Pipe Manufacturers Ltd
Auto Spring Manufacturers Ltd	Toyota East Africa Ltd	Kenya Vehicle Manufacturers Limited	Sohansons Ltd
Autofine Filters & Seals Ltd	Unifilters Kenya Ltd	Labh Singh Harnam kSingh Ltd	Theevan Enterprises Ltd
VarsaniBrakelinings Ltd	Mann Manufacturing Co. Ltd		
Sector: Paper and Paperboard (60)			
Ajit Clothing Factory Ltd	Colourprint Ltd	Conventual Franciscan Friars-Kolbe Press	Kakamega Paper Converters Ltd
AllPack Industries Ltd	Kenya Litho Ltd	Creative Print House	Kartasi Industries Ltd
Andika Industries Ltd	Kenya Stationers Ltd	D. L. Patel Press (Kenya) Limited	Kenafric Diaries Manufacturers Ltd
Associated Paper & Stationery Ltd	Kim-Fay East Africa Ltd	Dodhia Packaging Limited	Kitabu Industries Ltd
Autolitho Ltd	Paper Converters (Kenya) Ltd	East Africa Packaging Industries Ltd	Kul Graphics Ltd
Bag and Envelope Converters Ltd	Paper House of Kenya Ltd	Elite Offset Ltd	L.A.B International Kenya limited
Bags & Balers Manufacturers (K) Ltd	Paperbags Limited	Ellams Products Ltd	Label Converters
Brand Printers	Phoenix Matches Ltd	English Press Limited	Modern Lithographic (K) Ltd
Business Forms & Systems Ltd	Primex Printers Ltd	Flora Printers Ltd	Nation Media Group Ltd
Carton Manufacturers Ltd	Print Exchange Ltd	General Printers Limited	National Printing Press Limited
Cartubox Industries (E.A.) Ltd	Printpak Multi Packaging Ltd	Graphics & Allied Ltd	Packaging Manufacturers (1976) Ltd
Cempack Ltd	Printwell Industries Ltd	Guaca Stationers Ltd	Pan African Paper Mills (E.A) Limited
Chandaria Industries Limited	Prudential Printers Ltd	Icons Printers Ltd	Regal Press Kenya Ltd
Colour Labels Ltd	Punchlines Ltd	Interlabels Africa Ltd	Rodwell Press Ltd
Colour Packaging Ltd	Ramco Printing Works Ltd	Jomo Kenyatta Foundation	SIG CombiblocObeikan Kenya

Source: Kenya Association of Manufacturers (KAM) Directory. June, 2012

APPENDIX III
LETTER OF INTRODUCTION

Dear Respondent,

RE: RESEARCH STUDY

I am carrying out research for my Ph.D thesis at the University of Nairobi on *Innovative Capability, Corporate Political Activity, Competitive Strategy and Performance* focusing on the manufacturing sector in Kenya. The main objective of the study is to contribute to the intellectual field of management in Kenya and the world on innovative capability and performance. Specifically the study seeks to establish factors within and outside the firm that can enhance the firm's innovative capability.

Please respond to the questionnaire items honestly. All information gathered in this study will be treated with strict confidentiality. The research is conducted in line with University standards in research, as such; neither your name, nor that of your firm will be passed on to anyone else. Should you need to get the results of the study, feel free to indicate your contact.

Kindly answer all the questions as per instructions. If you would like to find out more on the research, you can contact me or the Ph.D. Coordinator, School of Business, University of Nairobi. P. O Box 30197, 00100 Nairobi. Email dsp@mail.uonbi.ac.ke.

This research heavily depends on your cooperation and support. I thank you in advance and look forward to your positive feedback.

Yours Sincerely

Alice J. O. Yalla
Email: yallaalice@gmail.com

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