VALUE INNOVATION STRATEGIES AND OPERATIONAL PERFORMANCE OF SELECTED RESTAURANTS IN NAIROBI KENYA

BY

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OCTOBER, 2014

DECLARATION

I hereby declare that this is my original work and has not been presented for award for a degree at this or any other university.

Signature ………………………… Date ………………………………….

Maina Christine Waithira

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I hereby declare that this project has been submitted with my approval as the University supervisor.

Signature ……………………… Date ………………………………….

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DEDICATION

To the most important people in my life: my lovely family and friends for all their support in my pursuit for further education.

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It would have not been possible for me to write this dissertation if it were not for the support, encouragement and guidance of many people.

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ABSTRACT

In today's fiercely competitive environment, most firms have only one choice to innovate or die. Many innovation and creativity studies have focused on providing solutions or solving problems using technology, thus providing technological solutions to customers' problems. In return technologies have been viewed as solutions to problems making most innovations to be solutions driven. However unlike technological solutions, value innovation focuses on redefining the problems themselves, thereby making competition irrelevant. The main objective of this study was to determine the effect of value innovation strategies on operational performance of selected restaurants in Nairobi, Kenya. The specific objectives of the study was to determine the extent of application of value innovation strategies in the selected restaurants in Nairobi, Kenya and to establish the impact of application of value innovation strategies on operational performance of selected restaurants in Nairobi, Kenya. The study was carried out on the selected restaurants in Nairobi, in Kenya targeting the staff of these organizations. The study adopted a cross sectional survey design. Primary data was collected via questionnaires using the "drop and pick" method. The questionnaires were self-completed and collected within two weeks of delivery. The data was analyzed using both descriptive & inferential statistical measures. Descriptive statistics included: frequencies, percentages, mean scores and standard deviations. Inferential statistics was done using regression analysis to determine the relationship between the independent and dependent variables under study. The selected restaurants were found to apply value innovation strategies to a large extent. Value innovation strategies as depicted by product and service value innovation were found to have a positive relationship with the operational performance of the selected restaurants. These variables related positively to quality, cost and service time as operational performance indicators for the selected restaurants with service value innovation featuring more significantly.

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CHAPTER ONE : INTRODUCTION

1.1 Background of the Study

In today's fiercely competitive environment, most firms have only one choice to innovate or die. Innovation is about finding a new and better way to do things. It is about the exploitation of new ideas that bring about the creation of a new product, process, service, a new business system or a new method of management, that have a significant impact on productivity and growth. Organizations must innovate across the value chain, not just in research and developmen (Peter, 1995).

Kim and Maughborne (1997) note that in the last three decades, strategic thinking has been pre-occupied with competition, competitive strategy, competitive benchmarking, competitive advantage, outperforming competition. By doing so, most businesses simply extend what their competitors are doing by trying to outdo them by doing what their competitors are doing better which regresses their strategic thinking towards the competition. Their actions therefore achieve no more than incremental improvements or imitation, but not innovation. In the knowledge economy, strategy must focus on expanding existing markets or creating new ones-not beating competition (Kim & Maughborne, 1999).

Many innovation and creativity studies have focused on providing solutions or solving problems using technology, thus providing technological solutions to customers' problems. In return technologies have been viewed as solutions to problems making most innovations to be solutions driven.

However unlike technological solutions, value innovation focuses on redefining the problems themselves, thereby making competition irrelevant (Kim & Maughborne, 1997). Value innovation researchers have studied the successfull application of value innovation strategies including and not limited to: Best Buy, Costco, Dell, Enterprise Rental Car,eBay, General Electric, Home Depot, Microsoft,Southwest Airlines, Starbucks, Virgin Group, WalMart, Whirlpool, SAP, Apple, Safaricom-Mpesa among others. These are paradigm breaking companies which did not try either to beat their domestic rivals in the market or by financial manipulations but instead searched for a new paradigm to create industry breakpoints which can be termed as the logic of value innovation (Mohanty, 1999).

Restaurants provide a service and a product combined and thus provide a good case study for how innovation can be pursued on the two platforms. The hotel industry and restaurants in Kenya has been booming in the last five years with many opening up every new day. As competition continues to grow, most restaurants continue to modify their product and service offerings in order to differentiate themselves in the market place and reach their target clients. As they try to innovate, some have been able to implement break through ideas and have been able to atrract and retain a great number of their clients achieving superior brand positioning. These breakthroughs are attributed to the value they create for their customers through value innovation.

1.1.1 Value Innovation

Value innovation can be defined as creating exceptional value for the customer especially when that customer is the most important customer in the value chain (Kim & maughborne, 1999).

Regardless of size, years of operations, industry conditions, and countries of origin, the successful companies pursue is Value Innovation (Thomas, Richard & David, 2005).

Value Innovation is different from building layers of competitive advantage and is not striving to outperform the competition. Nor is it about segmenting the market and trying to accommodate the individual needs and differences for different categories of customers. Value Innovation makes competition irrelevant by offering fundamentally new and superior buyer value in existing markets and by enabling a quantum leap in buyer value to create new markets. Value innovators do not make the competition the reference point for the business strategy, they search for new ideas that could grab the market by providing exceptional value for customers.They offer their customers radically superior value at a price that is accessible to the mass buyers in their target market (Kim & Maughborne, 1999).

Value innovation is related to blue-ocean strategy. Through value innovation instead of focusing on beating the competition in existing market space, an organization focuses on getting out of existing market boundaries by creating a leap in value for buyers and the company which leaves the competition behind (Kim & Maughborne, 2005). Some researchers found that there is a mutually reinforcing relationship between blue ocean strategy and innovation. Although blue ocean strategy is distinct from innovation, it is a good strategy to achieve value innovation (Colman & Buckley, 2005; Kim & Maughborne, 2005). Blue Ocean strategy helps organizations to innovate and bring new products to market (Meyer, 2005; Kim & Maughborne,

2005). Leavy (2005) notes that pursing blue ocean strategy leads companies to create more value.

1.1.2 Operational Performance

Kaplan and Norton (1992) note that the traditional measurements of financial performance are no longer valid for today's business demands. Therefore, they consider that operational measurements of management are needed when dealing with customer satisfaction, internal processes and activities directed at improvement and innovation in the organisation, which lead to future financial returns. Corbett and Van Wassenhove (1993) present a model considers three dimensions of operational performance: cost or efficiency, quality and time. Efficiency refers to the best possible use of all available resources in order to maximize output. This results in low cost products thanks to the reduction of waste and enables the factory to give value to customers.

Alberto and Javier (2002) note that traditionally quality has been defined in terms of conformance to specification and hence quality-based measures of performance have focused on issues such as the number of defects produced and the cost of quality. With the advent of total quality management (TQM) the emphasis has shifted away from conformance to specification and moved towards customer satisfaction. In either case, firms must obtain high levels of quality performance in order to improve or, at least, maintain their level of competitiveness. The first dimension of time-based performance is reliability.

This means fulfilling delivery commitments. On-time deliveries may have a significant impact on customer satisfaction, which makes it an issue to be taken seriously in operations management. The second time-related dimension refers to the speed of production processes, which is frequently measured as the time elapsing between materials reception and delivery of product to the customer. Therefore production planning and control systems in organizations aim at improving the flow of production processes, in order to respond more rapidly to customer demands. This concurs with the concept of value innovation whose authors, Kim and Maughborne (2006) note that value innovators strive to keeep their costs low to be able to reach the critical mass of buyers at a fair price while at the same time offering a radically superior buyer value. Therefore, operational performance in this study was evaluated through the criteria of quality, cost and service time.

1.1.3 Value Innovation and Operational Performance

According to Bessant and Boer (2002) recent developments in society, markets, technology and industry suggests that leading organisations need to find configurations of processes, procedures, people, technologies and organizational arrangements that allows them to become continuously innovative. According to Boer (2002) continuous innovation is the ongoing interaction between operations, incremental improvement, learning and radical innovation aimed at effectively combining operational effectiveness and strategic flexibility, exploitation and exploration. In seeking to develop a culture of continuous innovation there needs to be a focus on an organisation's capability to renew all or part of its managerial competencies and to create radically new competencies in order to achieve congruence with the changing business environment (Teece, Pisano & Shuen, 1997).

The need to deliver value-adding products or services of exceptional quality, on time, at a competitive price is prompting organisations to seek to operate more efficiently and to ensure they have effective operational processes (Hill, 2005; Slack, Chambers & Johnston, 2007). Thus, organisations attempting to meet these objectives need to pay attention to their operational effectiveness as this is a primary driver of business performance (Slack, Chambers & Johnston, 2007).

Operational effectiveness involves improving process performance by leading and controlling the processes within the firm as well as measuring and improving the processes. A better use of resources through these core processes enables the organisation to eliminate waste, adapt more appropriate technology innovation and therefore perform better than competitors (Porter, 1996). The five performance dimensions or objectives an organisation seeks to fulfill to attain operational effectiveness include cost, quality, flexibility, speed and reliability (Hill, 2005). Improving on cost means that an organisation seeks the elimination of waste which comes from efficiencies attained in processes such as purchasing, production, and staff performance. An appropriate disaggregation of the cost components impacting on the total cost performance of an organisation gives the opportunity to identify the areas for improvement (Slack, Chambers & Johnston, 2007).

Furthermore, improving on quality provides an opportunity to bridge the gap of what organisations are capable of offering and what customers demand. That is, viewing quality as a consistent provision of services that satisfy customers rather than only conforming to specifications without any clear continuous improvement.

The third operational performance objective consists of being flexible which includes an organisation's ability to adjust to changes to respond to customers (Slack, 1991). Additionally, improving on speed prompts an organisation to be able to shorten the time between the service request and delivery of the service with the frequency and at the time that a customer requests (Hill, 2005). Finally, reliability suggests that an organisation's processes consistently perform as expected over time. That is, customers are satisfied by organisations that provide services that do not fail over a period of time or with services that are delivered as has been agreed (Porter, 1996).

Value innovation significantly shifts the business focus especially for industries where products remain similar and where product innovation creates only incremental changes without major breakthroughs. These innovations lead to increased revenues and growth in profits at usually low risk. This is more evident in the online retailing businesses that have been able to achieve significant growth in revenues and profits at low risk.

Tesco, the UK retailer, has similarly developed a competitive advantage through its online grocery service in the UK. In 12 years, Tesco has gone from zero to around $3 billion annual sales online of grocery products, providing a profit of almost $200 million per annum. 850,000 active customers place more than 300,000 online grocery orders each week (Peder & Richard, 2013). Apple also revolutionized the consumer world through the iPod, then through the iPhone, then through the iPad. However, Apple did more than develop a good product, it developed a good service through the ecosystems of iTunes and iApps, similar to another great business model innovation of Gillette (Johnson, 2010).

1.1.4 The Hotel Industry in Kenya

The hotel industry plays a very important role in Kenya's economy. It is a major contributor to the Gross Domestic Product, creation of investment and employment opportunities, foreign exchange earnings, and infrastructure development as well as in the expansion of the commercial sector. It provides employment both directly and indirectly to thousands of people.This has positive impact in nearly every aspect of the nation's life through its linkages as expressed in demand for goods and services in the agricultural, textile, beverage, transport and entertainment sectors. It has a multiplier effect, which contributes to the general government revenue collection and the overall social economic growth of the country. In addition,it also plays a leading role in wealth creation as well as in poverty alleviation (Kanyeki, 2012).

The growth of the hotel industry in Kenya is associated with increased domestic and international tourism. Kenya has the best developed hotel industries in sub-Saharan Africa. This capacity is largely concentrated in Nairobi, the Coast and the Parks. The average demand for hotel and restaurants services outstrips the available infrastructure and significant opportunities exist for providers to innovate and provide unique services that appeal to the customers. The last five years have seen tremendous growth and significant changes to the restaurants and coffee shops in Nairobi.

Competition has also increased as more and more outlets of this nature are being opened every day. This has created the need for businesses to innovate their products and service in order to survive the cut throat competition (Tatua,2013). Some have succeeded to become pioneers in the industry through their services and products and have completely revolutionalised the industry through service and product value

innovation. This study thus focuses on these industry leaders and pioneers and draw an analysis of the product and value innovation strategies that they have adopted and used to become key players of this industry.

1.2 Problem Statement

Although innovation is widely viewed from the perspective of technology changes technology innovation differs from value innovation, and is not a requisite for value innovation; value innovation can occur with or without new technology (Thomas, Richard & David, 2005).

The literature on value innovation draws more on American, European and Asian case studies. Colman and Buckley (2005) noted that companies can create blue oceans through value innovation. Marcet (2008) also posits that innovation could increase companies' competitiveness through creating new business in the blue ocean. Morris (2007) demonstrates that organizations using blue ocean strategy to meet the challenge of innovation will bring themselves substantial advantages with their innovation. Chang (2008) did a case study of Samsung Total and found that Samsung successfully applied blue ocean strategy to create new market space for their products. Snell (2008) studied how Anheuser-Busch used blue ocean strategy to save their costs. Menon (2008) researched Indian software as a service business and suggested that companies in the industries could use blue ocean strategy to make their services wider. Savage and Brommels (2008) explored how to create a blue ocean for medical education in Sweden.

Locally Ngaruiya (2013) studied the application of value innovation as the basis for Blue Ocean strategy at Safaricom Limited and recommended that firms in the telecommunication sector should develop new products, enhance costs reduction and improved their innovation processes in order to enhance performance. Nyambane (2012) studied the challenges in the implementation of blue ocean strategies in large indigenous banks in Kenya and found that insufficient information and lack of clarity are the most challenging aspects. Miano (2013) studied the determinants of implementation of blue ocean strategy in commercial banks in Kenya and found that the factors which the banking industry needs to reduce are time taken on queues, operating costs, and overheads and indirect costs.

However, despite the enthusiasm with concept of value innovation and blue Ocean strategy, the literature in Africa and particularly Kenya remains scanty. Additionally, none of these studies focused on the value innovation strategies adopted by restaurants in Nairobi, Kenya. This study soughts to provide a value innovation perspective using selected restaurants in Nairobi, Kenya and thus make contribution to the the value innovation research and literature based on an African context. Blue ocean strategy has been identified in literature as the first best way to create strategy in the hyper competitive business landscape of the 21st century (Kim and Maughborne, 1999). This study sought to answer the following questions: what is the extent of application of value innovation strategies in the selected restaurants in Nairobi, Kenya? and what is the impact of application of value innovation strategies on the operational performance of the selected restaurants in Nairobi, Kenya?

1.3 Main Objective

The main objective of this study was to evaluate the impact of application of value innovation strategies on operational performance of selected restaurants in Nairobi, Kenya.

1.3.1 Specific Objectives

The specicific objectives of this study were:

i. To determine the extent of application of value innovation strategies in the selected restaurants in Nairobi,Kenya.

ii. To establish the impact of application of value innovation strategies on operational performance of selected restaurants in Nairobi, Kenya.

1.4 Value of the Research

The purpose of this study was to evaluate evaluate the impact of application of value innovation strategies on operational performance of selected restaurants in Nairobi, Kenya. Subsequently, the study findings will be useful to the following parties:

The findings will inform the process of innovation and strategy development in the hotel industry in Kenya by demonstrating practical ways of applying value innovation in the organization strategy design. It will also be useful to other organizations and the government to further best practices in organization and business strategy design and implementation. The researcher hopes that the study will stimulate further interest and more studies in the area of value innovation especially in an African and Kenyan context. It will contribute to the body of knowledge in the area of blue ocean strategy which has been identified in literature as the first best way to create strategy in the hyper competitive business landscape of the 21st century.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents an overview of existing literature on value innovation to provide the theoretical background of the study. For the purposes of comparing the findings of this study with previous findings of similar studies, a review of the empirical literature is included. The chapter concludes by presenting a summary of the literature review and the research gaps identified.

2.2 Innovation

Innovation is about finding a new and better way to do things. It is about the exploitation of new ideas that bring about the creation of a new product, process, service, a new business system or a new method of management, that have a significant impact on productivity and growth. Innovation is change that creates a new dimension of performance. It may mean the exploitation of new technology and the deployment of serious creative thinking to provide new value. Ultimately, innovation is all about bringing new value to customers (Hesselbein, Francis, Marshall, & Ian, 2002).

Competition is a major determinant of innovation. It has never been as intense as it is today in a global marketplace where many businesses face weakening demand, climbing costs, pressure on pricing and numerous other drivers of change. Competition encourages the adoption of innovation, as companies seek to make progress in their competitiveness so as to prosper and grow in the marketplace.

Innovation can help a business to stay fresh and perhaps even to reinvent itself if required as conditions in the marketplace change. Innovation fosters economic growth in the global marketplace and kick starts the real possibility of new markets, enabling companies to reach new customers with current products and services and to offer existing customers attractive and sometimes exciting new products and services. This is why innovation is such an important strategic issue today (Hesselbein, 2002).

Tidd et al (2005) argue that there are four types of innovation. The first is Product Innovation which involves development of new products or improvements on existing products. The second is Process Innovation where some part of the process is improved to bring benefit. The third is Positioning Innovation whereby the market positioning of a product is changed to capture new market segments. The fourth is Paradigm Innovation which aims to capture new opportunities for innovation through reframing of the mental model or the way we look at something.

2.2.1 Value Innovation

Value innovation implies a radical change in the conception and/or delivery of value in an industry. It implies a rupture with the dominant logic of doing business and not necessarily the existing technology platforms and as such creates new market opportunities and new ways of competing (Paul et. al 2008). Many companies across the globe are facing increasingly intense competition and hence profitable growth has been a great challenge in recent times. This has led companies to pursue innovation in order to remain relevant in the market place since competing for a share of contracting markets is not the best strategy.

Value innovation, the cornerstone of blue ocean strategy, is the simultaneous pursuit of differentiation and low cost, creating a leap in value for both buyers and the company (Amit and Zott, 2012). Because value to buyers comes from the offering's utility minus its price, and because value to the company is generated from the offering's price minus its cost, value innovation is achieved only when the whole system of utility, price, and cost is aligned.

There are three basic building blocks of strategy: Competitors, customers and capabilities. Regarding these three, value innovators seek radically superior value to make competition irrelevant, targeting the mass of buyers by following non customers closely and are willing to combine the capabilities of other firms. Value Innovation identifys the innovation that occurs when organizational members are working on identifying better (new) ways to serve their current customers, and are identifying new markets (Lynda, Nina, David and James , 2005).

Value innovation links innovation to what the mass of buyers value (Hamel, 2000; Matheson and Mathcson, 1998). Value innovators redefine problems and frame them in terms of performance criteria that matter to customers. Value innovators successfully translate innovations into profitable commercial ventures (Hax, 1989). In the summary of findings and conclusions from the council on competitiveness from its year-long National Innovation Initiative the council states that the past 25 years were spent on optimizing organizations for efficiency and quality, over the next century we must optimize our entire society for innovation (Wayne and Palmisano, 2004).

2.3 Conventional Logic versus Value Innovation Logic Theories

There are several theories of strategy in literature and practice. The most significant of these theories that provide a clear contrast with the blue ocean strategy/value innovation strategy theory are: Michael Porters theory of competitivenes, the resource based view theory and the srtategic positioning theory. According to Porter (1985), industry structure is determined by five competitive forces (the power of buyers, the power of suppliers, the threat of new entrants, the threat of substitutes and rivalry among suppliers). Porter's five forces model highlights the interplay between the suppliers, buyers, new entrants, substitutes, and industry competitors in order for a business entity to gain competitive advantage.

According to Porter (2004), analyzing an industry in terms of the five competitive forces would help the firm identify its strengths and weaknesses relative to the actual state of competition. The collective strength of these forces determines the ultimate profit potential of an industry. The publication of Porter's Competitive Strategy in 1980 initiated the era of generic strategies. These generic strategies were supposed to inclusively represent the three ways in which an organization could provide its customers with what they wanted at a better price, or more effectively than others. Essentially, Porter maintained that companies compete either on price (cost), on perceived value (differentiation), or by focusing on a very specific customer (market segmentation or focus).

The RBV theory shows that a firm can find strategic success through the acquisition, development and deployment over time of scarce resources and skills which are either unique in themselves or in the way they are combined with other assets.

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The RBV claims that the acumen and experience of managers and their ability to create unique advantages in the marketplace is difficult, if not impossible, for other firms to emulate or compete away, which lay the foundations for value creation and sustained competitive advantage (Tampoe, 1994).

Grant's (1991) offers a description of the characteristics of strategic assets, namely, durability, transparency, transferability, and replicability. Strategic positioning is a differentiation tactic by customer segment, with the goal to dominate one market niche as much as possible, thus matching production costs, locations, price and product to maximize the returns on investment (ROI) on that combination. The primary benefits are to gain market share dominance, and keep margins as high as possible to maximize profits. By matching the combination of the four factors to market niches, a company can optimize its market penetration and its operations to serve those market niches (Stata, 1999). Companies use strategic positioning when they consciously decide to expand their business into different market segments than they are in currently.

Miano (2013) notes that blue ocean strategy is a totally new strategy which leads companies to leave current market and go into an unknown market to reduce their costs and capture new customers from other industries therefore enhance companies' competitiveness. This new market actually existed before but ignored by most of the managers. Traditional strategies and theories artificially demarcate the border of industry and help a lot for companies' competition in current market. However, the industry defined by old theory might be a fake one. The service and products which can bring companies most profits may be ignored by old industry.

Obviously substitute products and other factors directly or indirectly affected competition in these industries but their roles are marginalized. In many industries especially in sunset industry, as the raising of the costs and reducing of profits, companies' survival faces serious threats. It is therefore useless and meaningless to use traditional strategies to capture current limited market. This should prompt companies to pursue blue ocean strategy in order to search for a new market without competitors.

Table 2. 1: Differences between Convectional Strategy Logic and Value Innovation

The five dimensions of strategy	Convectional focus	Value Innovation focus
Industry assumptions	Industry conditions are given	Industry conditions can be shaped
Strategic focus	A company should build competitive advantages. The aim is to beat the competition.	Competition is not the benchmark. A company should pursue a quantum leap in value to dominate the market.
Customers	A company should retain and expand its customer base through further segmentation and customisation. It should focus on the differences that customers value.	A value innovator targets the mass buyers and willingly lets some existing customers go. It focuses on the key commonalities in what customers value.
Assets and capabilities	A company should leverage its existing assets and capabilities.	A company must not be constrained by what it already has. It must ask, what would we do if we were starting anew?
Product and Service Offerings	An industry's traditional boundaries determine the products and services a company offers. The goal is to maximise the value of those offerings.	A value innovator thinks in terms of the total solution customers seek, even if that takes the company beyond its industry's traditional offerings.

Source: Kim and Maughborne (1999)

2.4 The Platforms of Value Innovation

Value innovation is created in the region where a company's actions have a favourable effect on both the cost structure and the value proposition to your customers. Value innovation is the art of making competition irrelevant by creating such a leap in value for your buyers and company that you open up new and uncontested market space and swim in a sea of prosperity (Ngaruiya, 2013).There are three distinct platforms on which value innovation can take place: product, service and delivery. The product platform is the physical product; the service platform is support such as maintenance, customer service, warranties, and training for distributors and retailers,- and the delivery platform includes logistics and the channel used to deliver the product to customers (Kim and Maughborne, 1997).Through these three platforms companies can fundamentally shift the strategy canvas of an industry by reorienting its strategic focus from competitors to alternatives, and from customers to noncustomers of the industry. The strategy canvas contains two parts, a diagnostic and an action framework. The former one refers to the current state of play in the know market space. The latter one is a four action frameworks can be used to formulate a new blue ocean for companies in existing market.

Product innovation is the introduction of a new product, or a significant qualitative change in an existing product. Product innovations may be tangible manufactured goods, intangible services, or a combination of the two. Current competitive pressures drive firms to introduce higher-quality products faster and at lower cost than competitors, a challenge that is becoming increasingly important in the rapidly-changing world (Barnett and Clark, 1998).

Product innovation can be categorised in the following five categories: a modified version of an existing product range; a new model in the existing product range; a new product outside the existing range but in a similar field of technology; or a totally new product in a new field of technology. Evidently, as one moves up the scale from the first category to the fifth, the degree of innovative effort and risk-taking on the part of the firm is likely to increase significantly. Product value innovation aims for this kind of disruptive innovation but at a low risk to the company (Geroski and Mazzucato, 2002).

Service innovations are very easily copied than product innovations and are not as much well protected as the product innovations. The only protection for a service company is to keep on moving, to embed innovation as an integral part of the management process (Peder and Richard, 2013). Services present different views of value as perceived by the customer and other players involved. Thus different organizations will use different business models for value creation, delivery and capture. The essence of a business model is that it defines the manner by which the business enterprise delivers value to customers, entices customers to pay for value, and converts those payments to profit (Teece, 2010). A business model describes the rationale of how an organisation creates, delivers, and captures value. This could be economic, social or other forms of value (Osterwalder and Pigneur, 2010).

Peder and Richard (2013) provide a summary of the commonly agreed elements that contribute to successful service innovation, namely: an attractive value proposition for all stakeholders, a clear business (or commercial) model, a single service system delivering a variety of customer experiences, supported by technology and

information systems, alongside other key resources, such as capital, people, land, buildings, transport, and inventory. They further note that many firms are and have been successful for a time being able to innovate; however, the key challenge is whether a firm can continue to innovate in their service provision.

The Service Innovation Triangle (SIT) provides an integrated view of value creation through service innovation, encompassing multiple perspectives (their firm, their customers, and suppliers) across the key elements, and does not limit innovation to linear development. Service innovation provides the means to lead the search for greater value, however it is defined, such as cheaper, quicker, or cleaner; whoever is involved: customers, the firm, or suppliers. Hence, value sits at the top of the SIT, and the three sides of the triangle represent the main parties involved. Hence, successful service firms have innovation integrated into their daily strategy and operations. Value driven service innovation provides new or better services motivated by value creation for the organisation, its customers, suppliers and partners, which is based on the organisation's innovation potential and realised through the management innovation ability (Peder and Richard, 2013).

Figure 2.1: Service Innovation Triangle
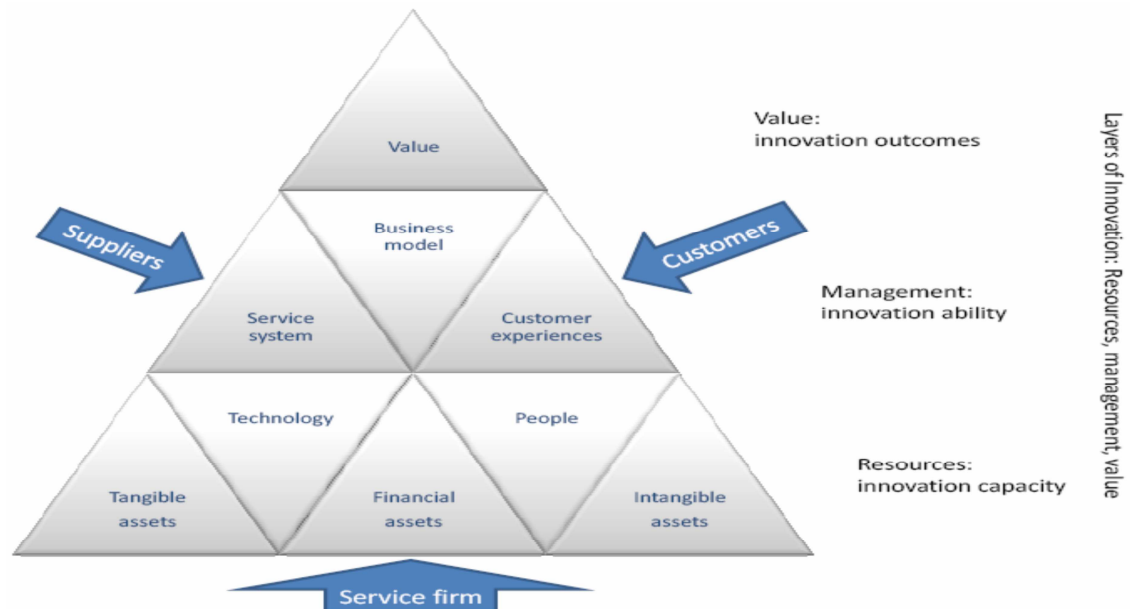
Source: Peder and Richard, 2013

2.5 Evaluating the Impact of Value Innovation on Business Performance

Unlike the traditional approach in strategy where quality and cost are seen as tradeoffs such that when a product is perceived to be of higher quality, then the price is also high, value innovators strive to keep their costs low hence reaching the critical mass of buyers at a fairly price while at the same time offering a radically superior buyer value. This is the hallmark of value innovation which is the cornerstone of blue ocean business strategy (Ngaruiya, 2013).

In over two decades study focusing on companies in over thirty industries, contrasting high-growth companies and their less successful competitors, Kim and Maughborne (1997) report that although 86% of the launches were line extensions-that is, incremental improvements-they accounted for 62% of total revenues and only 39% of total profits. The remaining 14% of the launches - the true value innovations

generated 38% of total revenues and a whopping 61% of total profits. Value innovation leads to increased revenues and growth in profits at usually low risk, where risk can be interpreted to mean growth at low business costs .

Lewis (2005) used blue ocean strategy and proposed that it contributes positively to competitiveness within an industry through quality of products and services. Snell (2008) noted that applying blue ocean strategy can make a corporate more profitable while improving the cost structure. Motley (2008) applied blue ocean strategy to the banking industry and found that it can reduce costs of operations and increase profits by entering different market segment without competitors. Shen and Zhang (2008); Kim, Yang and Kim (2008) demonstrated that blue ocean strategy help third party logistics companies strengthen their core competitiveness and lower their costs. Business performance in this study will be evaluated using operational performance using the criteria of high quality, low cost and service time.

2.6 Empirical Review of Value Innovation Studies

Blue ocean strategy has been treated by many scholars as a good strategy for companies to create uncontested market in which competition is irrelevant. (Layton,2005; Webber, 2005; Kehnen, 2006; McClenahen, 2005; Srinivasan, 2006; Sarfati,2006; Kiley, 2005; Gordon, 2005; Scherer,2007; Madan, 2007; Goldberg, Godwin and Cannon, 2006; Andersen & Strandskov, 2008; Azar, 2008). Dahl (2005) proves that blue ocean strategy is widely used by successful companies. Abraham (2006) suggests that correctly defining the market space of companies help companies find an industry they have monopoly in. Sheehan and Vaidyanathan (2009) state that blue ocean strategy enable managers to capture unique value for consumers.

Bowman (2008) criticizes the blue ocean strategy authors that they define competition in the industry too narrow. The alternatives customers consider to meet their needs might include a range of similar products, or some very different products. Lynda and James (2005) provide a summary of research on factors that contribute to innovation and posit that organizations whose employees have autonomy to make decisions and speak out about issues are more innovative. They also attribute innovation to openness to change and cultures where it is permissible to take risks and learn from failures. Business planning, business intelligence and decision making also affect innovation in organizations, while organizational structures that support communication and facilitate learning also contribute to innovation.

Mohanty (1999) evaluates value innovation from a perspective of Indian firms and concludes that companies have varying potentials for innovation characterized by multiple dimensions. There are critical processes which contribute to the growth, survival and death of companies.

Paul, Koen and Liselore (2008) examine value innovation in the functional foods industry. They provide a typology of value innovation where the first dimension builds on the non-acceptance of the traditional strong power play and adverse relations in the chain which they call "breaking the dominant chain logic". The second dimension originates in the non-acceptance of the product thinking that often is taken for granted in the upstream parties' industry which they call "breaking the dominant product logic". Additionally they emphasize that value innovation often implies the emergence of inter-industry segments, and results in the convergence between different industries (Broring et al., 2006).

Kang and Young (2006) did a Study on the creative value innovation strategy and hence provide a methodology of value innovation through a step-wise process of creative value design which involves value analysis, value formation, value creation, value design and value evaluation using scientific tools. Jaka and Carlos (2011) studied value proposition as a catalyst for a customer focused innovation. By contributing to a better understanding of the value proposition concept and its correlation with innovation, they provide a framework which gives a better understanding of the structure of a value proposition and its role in the innovation process. The PERFA (performance, ease of use, reliability, flexibility and affectivity) framework offers guidance on what aspects to improve or innovate on business innovative offerings in order to generate value for customers.

Kyengo (2009) surveyed the adoption of Blue Ocean strategy by mobile content providers in Kenya. Through interviewing managers in four mobile companies, the study noted that there was evidence of blue ocean strategy orientation among the firms and concluded that competition could not be totally ignored in the sector. While it was the first study on BOS to be done on Kenya, it only focused on the telecommunications sector and did not address how firms can use the strategy to grow but rather documented the practice of the same in the industry.

Nyambane (2012) studied the challenges of implementing BOS in banks in Kenya. Interviewing strategy managers of three largest commercial banks in Kenya, the study found that the banks focused on blue ocean strategies to create and sustain their market share. However, this study was limited on the scope by the fact that it only focused on indigenous banks and not the entire industry.

Further, it only addressed the challenges of implementing BOS and not the application of the strategy in the industry. Abishua (2010) studied the strategies that Equity bank uses to compete. The study used secondary data and found that the bank a number of strategies including blue ocean strategy to compete in the industry. The study was limited in scope as it was a case study rather than a survey. Being a case study, it cannot be generalized to the entire industry.

2.7 Research Gaps

The review of literature on value innovation and blue ocean strategy reveals that the literature on the two areas in an African and Kenyan context is scarce. Thus this study serves the purpose of bridging the knowledge gap by providing an application study of the use of value innovation and blue ocean strategy concept in a Kenyan context thus bridging the knowledge gap.

2.8 Conceptual Framework

Value innovation helps companies create blue oceans through pursuit of differentiation and low cost at the same time. Value innovation does not trade off costs with quality since it aims at creating value for customers. This means that value innovation attempts should lead to high quality products or services which expose the business to low investment risks due to a low cost structure. Thus the independent variables include product value innovation and service value innovation while the dependent variable will be operational performance as depicted by Quality, Cost and Service Time.

Figure 2.2: Conceptual Framework

Independent Variables   **Dependent Variable**

Product Value Innovation

— Modification of existing product range

— New product model of existing product range

— New product outside existing product range but
   using existing processes and methods

— Totally new products using totally different
   processes and methods

Operational

Performance

— Quality
— Cost
— Service time

Service Value Innovation

— Unique customer experience to different Categories of
   customers

— Innovative business processes

— Business model that supports innovation

— Application and use of resources

— Flexible and adaptable service system

— Use of technology and information systems in service
   delivery

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter sets out various stages and phases that were followed in completing the study. It contains the blueprint for the collection, measurement and analysis of data. In this section the researcher identifies the procedures and techniques that was used in the collection, processing and analysis of data. Specifically the following subsections are included; research design, target population, data collection instruments, data collection procedures and finally data analysis**.**

3.2 Research Design

This study used a cross-sectional survey of the selected restaurants. A cross-sectional survey seeks to examine an issue across a population of organizations at a particular point in time. The aim of the study is to evaluate the impact of application of value innovation strategies on operational performance of selected restaurants in Nairobi, Kenya. Given the objectives that the study sought to achieve, a descriptive survey was best suited for the study.

3.3 Population of Study

The study population was all the restaurants in Nairobi, Kenya which are approximately 30,000 restaurants (Nairobi City County, 2014).

3.4 Sampling Design and Procedure

This study used two stage sampling. The first stage used purposive sampling to select the restaurants from which the study collected data. The second stage used stratified random sampling to select the employees who were the study respondents. Stratified random sampling technique was used since the respondents are not homogeneous and could be divided into groups or strata to obtain a representative sample.

A sample of 30% was drawn from within each group in proportions that each group bears to the study population. Kotler (2001) argues that if well chosen, samples of about 30% of a population can often give good reliability. The selection was as follows;

Table 3. 1: Study Sample size

Sections	Population (Frequency)	Sample Ratio	Sample
Managers	16	0.3	5
Supervisors	30	0.3	9
Staff	254	0.3	76
Total	300		90

Source: Nairobi Central Restaurants, 2014

3.5 Data Collection

Primary data was collected by use of questionnaires. The questionnaires included structured and unstructured questions. The questionnaires were self-completed and collected within two weeks of delivery. Questionnaire items may be closed ended or open ended type. Likert- scales use fixed choice response formats and are designed to measure attitudes or opinions by measuring levels of agreement / disagreement (Bowling, 1997).

Likert-scales were used in this study to opearationalize the study variables and hence compute a composite index for each variable for regression purposes. In the open ended type of questions, the respondents stated their responses as they wished.

3.6 Validity and Reliability

This study utilized content validity for ensuring that the experimentation does provide sufficient coverage of the study subject. Additionally, in order to achieve a good report on the findings, the reliability of this study was ascertain through pre-testing of the research tool using a group of 5 respondents working in the hotel industry but working outside the selected restaurants. This was done to ensure that the actual participants are not engaged in the pilot study, which would otherwise compromise the outcome of the study findings.

3.7 Data Analysis

Once data was collected, it was cleaned and coded into meaningful parameters that can be read by the computer for ease of analysis. To determine the extent of application of value innovation strategies in the selected restaurants, the data collected was analysed by use descriptive statistics with the help of Statistical Package for Social Sciences (SPSS), and presented through frequencies, percentages, means and standard deviations. Data collected using the Likert scales on product and service value innovation was analysed and presented through means and standard deviations to determine the extent of application of value innovation strategies.

To determine the impact of value innovation strategies on operational performance regression analysis was conducted to determine the impact of the independent variables (Product Value Innovation, Service Value Innovation) on each operational performance indicator (quality, cost and service time) of the selected restaurants.

The model below was applied to establish whether there existed any relationship between the dependent variable and the independent variables.

$Y = \alpha + \beta_1 x_1 + \beta_2 x_2 + e_i$ *where*: Y is the dependent variable (Operational Performance as depicted by quality, cost and service time), β_i being the coefficients, x_i is the independent variable: x_1 Being Product value innovation, and x_2 being service value innovation and α being the constant while e_i = error term. The outcome of the analysis was presented in the form of tables, pie charts, bar charts and graphs to ensure that the information is clearly understood.

CHAPTER FOUR: ANALYSIS AND DISCUSSION OF RESULTS

4.1 Introduction

In this chapter the research findings are presented on value innovation strategies and operational performance of selected restaurants in Nairobi Kenya. The findings were obtained using questionnaires administered to 90 employees of the selected restaurants in Nairobi, Kenya. The findings were presented using pie charts, bar graphs and tables. The chapter also contains discussion of the data results.

4.2 The Study Response Rate

The study targeted 90 employees of the selected restaurants in Nairobi. The objective was to determine the impact of application of value innovation strategies on operational performance of selected restaurants in Nairobi, Kenya. The questionnaires were distributed to respondents through drop and pick method. Out of the 90 questionnaires sent, 66 questionnaires were collected fully completed making a response rate of 73%. This gave a fair response rate demonstrating willingness of the respondents to participate in the research.

4.3 Demographic Characteristics of the Respondents

The respondents were both male and female. Their distribution is as shown in the table 4.1 below.

Table 4.1: Gender Distribution of the Respondents

Gender	Frequency	Percentage
Male	28	42
Female	38	58
Total	66	100.0

Table 4.1 above shows the findings on the gender of the respondent, the study found that majority of the respondent are female, as shown by a percentage of 58% while 42% were male. The results indicate that the selected restaurants had more female employees compared to male employees which is a common phenomenon in the hotel industry.

4.4 Descriptive Statistics on the Variables

This section used descriptive statistics to give the overall image of the variables to the study. In this section standard deviation and mean are used to discuss the value innovation factors that affect operational performance of selected restaurants in Nairobi, Kenya.

4.4.1 The Extent of Application of Product Value Innovation Strategies

Data on product value innovation strategies as the first independent variable was analyzed descriptively to give the overall image of their effect on operational performance.

The table 4.2 below provides the findings on the extent of application of product value innovation strategies in the selected restaurants in Nairobi, Kenya. The scale

that was used was a likert scale of five where: 1= not at all, 2 = small extent, 3 = moderate extent, 4 = large extent, 5 = very large extent.

Table 4.2: Descriptive Statistics on the Extent of Application of Product Value Innovation Strategies

Product Value Innovation Strategies	Mean	Std. Deviation
We continuously modify existing products	3.85	0.86
We continuously introduce new products to our customers	3.85	0.72
Our product improvement initiatives rely on existing processes	3.38	0.76
Our processes are determined by product requirements	3.41	0.89
We consider customer feedback when improving/ reviewing our products	3.56	0.67
Aggregate Scores	**3.61**	**0.78**

As shown by the aggregate data mean of 3.61, it is evident that the restaurants applied product value innovation strategies to a large extent. From the standard deviation of 0.78, it is evident that the individual statements standard deviations are close to this aggregate standard deviation indicating low variations among the respondents' responses.

The study found that the restaurants continuously modified existing products and continuously introduced new products to their customers to a large extent as shown by a mean of 3.85. The restaurants considered customer feedback when improving/ reviewing their products to a moderate extent as shown by a mean of 3.56, determined their processes by product requirements as shown by a mean of 3.41 and performed

their product improvement initiatives based on existing processes as shown by a mean of 3.38.

This supports the literature by company Geroski and Mazzucato (2002). Who found that firms can pursue product value innovation by modifying a version of an existing product range, creating a new model in the existing product range, developing a new product outside the existing range but in a similar field of technology or developing a totally new product in a new field of technology aiming to find a disruptive innovation at a low risk.

4.4.2 Other Product Value Innovation Strategies adopted by the Restaurants

When asked to give other product value innovation strategies adopted by the selected restaurants, the study respondents noted that they include: creating collaboration teams for product innovation, early feasibility testing of product concepts and engaging in continuous product innovation in order to stay ahead of others in the market.

The findings support literature as demonstrated by many scholars who argue that value innovation and blue ocean strategy at large is a good strategy for companies to create uncontested market in which competition is irrelevant. (Layton,2005; Webber, 2005; Kehnen, 2006; McClenahen, 2005; Srinivasan, 2006; Sarfati,2006; Kiley, 2005; Gordon, 2005; Scherer,2007; Madan, 2007; Goldberg, Godwin and Cannon, 2006; Andersen & Strandskov, 2008; Azar, 2008).

Dahl (2005) also argues that value innovation and blue ocean strategy is widely used by successful companies. Abraham (2006) suggests that correctly defining the market space of companies help companies find an industry they have monopoly in. Sheehan and Vaidyanathan (2009) state that blue ocean strategy enable managers to capture unique value for consumers.

4.4.3 The Extent of Application of Service Value Innovation Strategies

Data on service value innovation strategies was analyzed descriptively to give the overall image of their effect on operational performance of the selected restaurants. The table 4.3 below presents the findings on service value innovation strategies of selected restaurants in Nairobi, Kenya. The Scale that was used was a likert scale of five where: 1= not at all, 2 = small extent, 3 = moderate extent, 4 = large extent, 5 = very large extent.

Table 4.3: Descriptive Statistics on the extent of application of Service Value Innovation Strategies

Service Value Innovation Strategies	Mean	Std. Deviation
We provide unique customer experience	4.39	0.56
We provide unique customer experiences to different categories of customers	4.09	0.52
We continuously review / change our business processes	3.79	0.54
Our organization is structured in a flexible manner	4.02	0.43
Our organization devotes adequate resources to support service delivery	3.60	0.81
Employees have flexibility in determining the best way to offer service	4.14	0.57
Our operations are highly dependent on technology	4.04	0.40
Relevant information is easily available at the point of need	3.80	0.61
Aggregate Scores	**3.98**	**0.56**

As shown by the aggregate data mean of 3.98, it is evident that the selected restaurants adopted service value innovation strategies to a large extent. From the standard deviation of 0.56, it is evident that the individual statements standard deviations are close to this aggregate standard deviation indicating low variations among the respondents' responses.

The study found that the restaurants provided unique customer experience to a large extent as shown by a mean of 4.39, their employees had flexibility in determining the best way to offer service to a large extent as indicated by a mean 4.14, they provided unique customer experiences to different categories of customers to a large extent as shown by a mean of 4.09, their operations were highly dependent on technology to a large extent as shown by a mean of 4.04 and these restaurants were structured in a flexible manner to a large extent as indicated by mean of 4.02.

Additionally, the restaurants availed relevant information at the point of need to a large extent as shown by a mean of 3.80, reviewed/changed their business processes to a large extent as shown by a mean of 3.79 and also devoted adequate resources to support service delivery to a large extent as shown by a mean of 3.60.

These findings support the literature by Peder and Richard (2013) which provide a summary of the commonly agreed elements that contribute to successful service innovation namely: an attractive value proposition for all stakeholders, a clear business (or commercial) model, a single service system delivering a variety of customer experiences, supported by technology and information systems, alongside other key resources, such as capital, people, land, buildings, transport, and inventory.

4.4.4 Other Service Value Innovation Strategies adopted by the Restaurants

Responding to the question of other service value innovation strategies adopted by the selected restaurants, the study respondents gave the following strategies: gathering customer feedback data for use in future service innovation and improvements, dedicating and investing resources in service innovation initiatives, developing and nurturing a service innovation culture and learning, developing and implementing service innovation policies and schemes and integrating scientific approaches in service innovation.

The findings above are consistent with Peder and Richard (2013) who posit that many firms are and have been successful for a time being able to innovate however the key challenge is whether a firm can continue to innovate in their service provision. Hence, successful service firms have innovation integrated into their daily strategy and operations. Value driven service innovation provides new or better services motivated by value creation for the organisation, its customers, suppliers and partners, which is based on the organisation's innovation potential and realised through the management innovation ability.

4.5 Operational Performance of the Selected Restaurants

Data on operational performance indicators was analyzed descriptively and returned the results below.

The table 4.4 below presents the findings on performance on the quality dimension of selected restaurants in Nairobi, Kenya. The scale that was used was a likert scale of five where: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree.

Table 4.4: Descriptive Statistics on Quality Performance of the selected

Restaurants

Quality Performance	Mean	Std. Deviation
Overtime we have seen improvement in our product quality	4.37	0.57
Over time customer complaints have been reducing	4.35	0.66
Over time we have seen an increase in customers who always prefer our restaurant	3.93	0.79
Aggregate Scores	**4.22**	**0.67**

As shown by the data aggregate mean of 4.22, it is evident that the respondents agreed on the quality performance indicators of the selected restaurants. From the standard deviation of 0.67, it is evident that the individual statements standard deviations are close to this aggregate standard deviation indicating low variations among the respondents' responses.

The respondents agreed that they had overtime seen improvement in their product quality as shown by a mean of 4.37, that over time customer complaints had been reducing as shown by a mean of 4.35 and that over time they had seen an increase in customers who always prefer their restaurant as shown by a mean of 3.93.

This shows that the restaurants had adopted quality management strategies as a way of enhancing operational performance. Alberto and Javier (2002) note that traditionally quality has been defined in terms of conformance to specification and hence quality-based measures of performance have focused on issues such as the number of defects produced and the cost of quality.

With the advent of Total Quality Management (TQM) the emphasis has shifted away from conformance to specification and moved towards customer satisfaction. This allows firms to obtain high levels of quality performance in order to improve or, at least, maintain their level of competitiveness.

4.5.1 Other Quality Improvement Strategies adopted by the Selected Restaurants

When asked to provide other quality improvement strategies that the restaurants were applying, the respondents provided the following strategies: developing a quality control systems that monitor incoming material, work in progress and the output, undertaking customer needs analysis and integrating their needs in service and product design, creating a system and training employees on strategies they can use in reducing order errors, enhancing food packaging in order to keep food hot and improve satisfaction, encouraging teamwork to reduce order errors and ensure quality output.

These findings are consistent with the views of Slack (1991) improving on quality provides an opportunity to bridge the gap of what organisations are capable of offering and what customers demand. That is, viewing quality as a consistent provision of services that satisfy customers rather than only conforming to specifications without any clear continuous improvement.

The table 4.5 below gives the findings on performance on the cost dimension of selected restaurants in Nairobi, Kenya. The Scale that was used was a likert scale of five where: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree.

Table 4.5: Descriptive Statistics on Cost Performance of the Selected Restaurants

Cost Performance	Mean	Std. Deviation
Changes adopted have lowered operational costs	3.65	0.78
Changes adopted usually result in reduced resource usage e.g. staff numbers requirements	3.76	0.79
Aggregate Scores	**3.71**	**0.79**

As shown by the data mean of 3.71, the respondents agreed on the cost performance indicators of the selected restaurants. From the standard deviation of 0.79, it is evident that the individual statements standard deviations are close to this aggregate standard deviation indicating low variations among the respondents' responses.

The respondents agreed that changes adopted had lowered operational costs as shown by a mean of 3.65 and that changes adopted had resulted in reduced resource usage e.g. staff numbers requirements as shown by a mean of 3.76.

This shows that the restaurants were enhancing their operational effectiveness as demonstrated by Hill (2005) that improving on cost means that an organisation seeks the elimination of waste which comes from efficiencies attained in processes such as purchasing, production, and staff performance. An appropriate disaggregation of the cost components impacting on the total cost performance of an organisation gives the opportunity to identify the areas for improvement (Slack, Chambers & Johnston, 2007).

4.5.2 Other Cost Reduction Strategies adopted by the Selected Restaurants

When asked to provide other cost reduction strategies that the restaurants were applying, the study established other cost reduction strategies that were being used by the selected restaurants. The restaurants were improving their inventory systems so as to reduce materials handling costs and waste, were introducing better menu management strategies to reduce food service costs and implementing labour scheduling strategies to reduce labour costs.

This finding demonstrate that the selected restaurants were improving on their operational efficiencies and concurs with Corbett and Van Wassenhove (1993) who define efficiency as the best possible use of all available resources in order to maximize output. This results in low cost products thanks to the reduction of waste and enables the organization to give value to customers.

The table 4.6 below gives findings on the performance on service time dimension of selected restaurants in Nairobi, Kenya. The scale that was used was a likert scale of five where: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree.

Table 4.6: Descriptive Statistics on Service Time Performance of the Selected Restaurants

Service Time Performance	Mean	Std. Deviation
Changes put in place have reduced customer waiting time	3.85	0.61
We have ways of keeping customers occupied as they wait to be served	4.24	0.68
We always inform customers of expected service time	3.66	0.59
Aggregate Scores	**3.92**	**0.63**

As shown by the data mean of 3.92, the respondents agreed on the service time performance indicators of the selected restaurants. From the standard deviation of 0.63, it is evident that the individual statements standard deviations are close to this aggregate standard deviation indicating low variations among the respondents' responses.

The respondents agreed that the restaurants had ways of keeping customers occupied as they wait as shown by a mean of 4.24, that changes put in place had reduced customer waiting time as shown by a mean of 3.85 and that the restaurants always informed customers of expected service time as shown by a mean of 3.66.

This demonstrates reliability and speed in customer service at the selected restaurants. Which according to Alberto and Javier (2002) reliability means fulfilling delivery commitments which may have a significant impact on customer satisfaction, while the speed of production processes is measured as the time elapsing between materials

reception and delivery of product to the customer in order to respond more rapidly to customer demands.

4.5.3 Other Service Time Management Strategies adopted by the Selected Restaurants

When asked to provide other time management strategies that the restaurants were applying, the study found other service time management strategies that the selected restaurants were using. The respondents noted that some of the restaurants offered free drinks as customers waited, provided Wi-Fi internet services that allowed customers to surf the internet as they waited for their orders while others were integrating technology in customer service to better estimate wait times and improve the process of alerting guests when their orders were ready.

Therefore, the selected restaurants were finding ways to improve service time and hence customer satisfaction. This supports the view of Porter (1996) that customers are satisfied by organisations that provide services that do not fail over a period of time or with services that are delivered as has been agreed. This can be done by improving on speed by shortening the time between the service request and delivery of the service with the frequency and at the time that a customer requests (Hill, 2005).

4.6 The Impact of Application of Value Innovation Strategies on Operational Performance of Selected Restaurants In Nairobi, Kenya

Regression analysis was done to determine the model significance of the independent variables (product value innovation and service value innovation) on the dependent variable (quality) as presented in table 4.7 below.

Table 4.7: Model Summary for Quality Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.905[a]	.819	.793	.24895

The two independent variables (product value innovation and service value innovation) that were studied, explain only 79.3% of quality Performance of the restaurants in Nairobi, Kenya as represented by the adjusted R^2. This therefore means that other factors not studied in this research contribute 21.7% changes in the quality performance of restaurants in Nairobi, Kenya. Therefore, further research should be conducted to investigate the other factors (21.7%) that affect the quality performance of the restaurants in Nairobi, Kenya.

The ANOVA F-test was done to determine the quality model statistical significance yielding the results shown in table 4.10 below.

Table 4.8: ANOVA Test for Quality Performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.932	2	1.966	12.684	.001
	Residual	29.76	63	.155		
	Total	33.692	65			

The significance value is 0.001 which is less than 0.05 shows the model is statistically significant in predicting how product value innovation and service value innovation affect Quality Performance of restaurants in Nairobi, Kenya. This was also supported by the F calculated (12.684) was also less than the F critical (12.958).

To determine the constants of the regression model for quality performance the regression analysis yielded the table 4.9 below.

Table 4.9: Regression Coefficients for Quality Performance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.54	.554		2.72	.008
	Product Value Innovation	.22	.164	.180	3.35	.005
	Service Value Innovation	.59	.187	.421	3.24	.003

Dependent Variable: Quality Performance of Restaurants in Nairobi, Kenya

Through the use of SPSS the figure in table 4.10 above was and the regression equation obtained;

$$Y = 1.54 + 0.22X_1 + 0.59X_2 + \varepsilon$$

The study found that when product innovation and service value innovation are kept constant at zero, the quality performance of selected restaurants will be at 1.54. A unit increase in product value innovation will lead to an increase in quality performance of selected restaurants by a factor of 0.22; a unit increase in service value innovation will lead to an increase in quality performance of selected restaurants by a factor of 0.59.

This shows that quality performance of the selected restaurants has positive relationship with service value innovation and product value innovation in that order. This implies that service value innovation contributed more to quality performance of selected restaurants.

At 5% level of significance and 95% level of confidence, product value innovation had a 0.005 level of significance and service value innovation showed a 0.003 level of significance hence is the most significance on the effect on quality performance of the selected restaurants.

Regression analysis was done to determine the model significance of the independent variables (product value innovation and service value innovation) on the dependent variable (quality).

Regression analysis was done to determine the model significance of the independent variables (product value innovation and service value innovation) on the dependent variable (cost) as presented in table 4.10 below.

Table 4.10: Model Summary for Cost Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.915[a]	.837	.763	.24885

The two independent variables (product value innovation and service value innovation) that were studied, explain only 76.3% of Cost Performance of the restaurants in Nairobi, Kenya as represented by the adjusted R^2. This therefore means that other factors not studied in this research contribute 23.7% changes in the cost performance of restaurants in Nairobi, Kenya. Therefore, further research should be conducted to investigate the other factors (23.7%) that affect the cost performance of the restaurants in Nairobi, Kenya.

The ANOVA F-test was done to determine the cost model statistical significance yielding the results shown in table 4.11 below.

Table 4.11: ANOVA for Cost Performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.934	2	1.988	12.682	.002
	Residual	29.75	63	.155		
	Total	33.684	65			

The significance value is 0.002 which is less than 0.05 shows the model is statistically significant in predicting how product value innovation and service value innovation affect Cost Performance of restaurants in Nairobi, Kenya. This was also supported by the F calculated (12.682) was also less than the F critical (12.958).

To determine the constants of the regression cost model the regression analysis yielded the table 4.12 below.

Table 4.12: Regression Coefficients for Cost Performance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.52	.556		2.69	.007
	Product Value Innovation	.26	.167	.186	3.33	.004
	Service Value Innovation	.52	.189	.425	3.25	.003

Dependent Variable: Cost Performance of restaurants in Nairobi, Kenya

The established model for the study was:

$$Y = 1.52 + 0.26X_1 + 0.52X_2 + \varepsilon$$

The regression equation above has established that holding all other factors constant (Product Value Innovation and Service Value Innovation) cost performance of restaurants in Nairobi, Kenya would stand at 1.52. The findings further revealed that a unit change product value innovation while holding other factors constant will change the cost performance of restaurants in Nairobi, Kenya by 0.26, a unit change in service value innovation holding other factors constant will change the performance of restaurants in Kenya by 0.52 units.

The study established that service value innovation had the highest influence on the cost performance of restaurants in Nairobi, in Kenya followed by product value innovation. At 5% level of significance and 95% level of confidence, product value innovation had a 0.004 level of significance and service value innovation showed a 0.003 level of significance hence is the most significance on the effect on cost performance of the selected restaurants.

Regression analysis was done to determine the model significance of the independent variables (product value innovation and service value innovation) on the dependent variable (service time) as presented in table 4.13 below.

Table 4.13: Model Summary for Service Time Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.917[a]	.841	.765	.24887

The two independent variables (product value innovation and service value innovation) that were studied, explain only 76.5% of service time performance of the restaurants in Nairobi, Kenya as represented by the adjusted R^2. This therefore means that other factors not studied in this research contribute 23.5% changes in the service time performance of restaurants in Nairobi, Kenya. Therefore, further research should be conducted to investigate the other factors (23.5%) that affect the service time performance of the restaurants in Nairobi, Kenya.

The ANOVA F-test was done to determine the service time model statistical significance yielding the results shown in table 4.14 below.

Table 4. 14: ANOVA for Service Time Performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.931	2	1.988	12.680	.003
	Residual	29.74	63	.155		
	Total	33.671	65			

The significance value is 0.003 which is less than 0.05 shows the model is statistically significant in predicting how product value innovation and service value innovation affect service time performance of restaurants in Nairobi, Kenya. This was also supported by the F calculated (12.680) which was also less than the F critical (12.958). To determine the constants of the service time regression model the regression analysis yielded the table 4.15 below.

Table 4.15: Regression Coefficients for Service Time Performance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.47	.549		2.67	.009
	Product Value Innovation	.20	.160	.182	3.34	.003
	Service Value Innovation	.57	.177	.411	3.23	.002

Dependent Variable: Service time performance of restaurants in Nairobi, Kenya

Through the use of SPSS the figure in table 4.15 above was and the regression equation obtained;

$$Y = 1.47 + 0.20X_1 + 0.57X_2 + \varepsilon$$

The study found that when product innovation and service value innovation are kept constant at zero, the service time performance of selected restaurants will be at 1.47.

A unit increase in product value innovation will lead to an increase in service time performance of selected restaurants by a factor of 0.20; a unit increase in service value innovation will lead to an increase in service time performance of selected restaurants by a factor of 0.57. This shows that service time performance of the selected restaurants has positive relationship with service value innovation and product value innovation in that order. At 5% level of significance and 95% level of confidence, product value innovation had a 0.003 level of significance and service value innovation showed a 0.002 level of significance hence is the most significance on the effect service time performance of the selected restaurants.

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter gives a summary of the findings, conclusion and recommendations that are aimed at advising policy and further research.

5.2 Summary of Study Results

The first objective of the study was to determine the extent of application of value innovation strategies in the selected restaurants in Nairobi, Kenya.

On this objective the study found that the selected restaurants applied product value innovation strategies to a large extent. They did this to a large extent through continuous modification of existing products, continuous introduction of new products to their customers. However to a moderate extent these restaurants considered customer feedback when improving/reviewing their products determined their processes by product requirements and performed their product improvement initiatives based on existing processes. Other product value innovation strategies adopted by the selected restaurants include: creating collaboration teams for product innovation, early feasibility testing of product concepts and engaging in continuous product innovation in order to stay ahead of others in the market.

The selected restaurants also to a large extent adopted service value innovation strategies. Some of the strategies they adopted included providing unique customer experiences, giving their employees flexibility in determining the best way to offer

service, providing unique customer experiences to different categories of customers, making their operations highly dependent on technology and structuring their organizations in a flexible manner. These restaurants also to a large extent availed relevant information at the point of need, reviewed/changed their business processes and devoted adequate resources to support service delivery.

Other service value innovation strategies adopted by the selected restaurants include: gathering customer feedback data for use in future service innovation and improvements, dedicating and investing resources in service innovation initiatives, developing and nurturing a service innovation culture and learning, developing and implementing service innovation policies and schemes and integrating scientific approaches in service innovation.

The second objective was to establish the impact of application of value innovation strategies on operational performance of selected restaurants in Nairobi, Kenya. On this objective, the study found that quality in the selected restaurants had positive relationship with service value innovation and product value innovation whereby service value innovation had the most significant influence on quality performance of selected restaurants.

The two independent variables (product value innovation and service value innovation) that were studied contributed 79.3% to quality Performance of the restaurants in Nairobi, Kenya. The quality management strategies that the restaurants were using include developing quality control systems that monitor incoming material, work in progress and the output, undertaking customer needs analysis and

integrating their needs in service and product design, creating a system and training employees on strategies they can use in reducing order errors, enhancing food packaging in order to keep food hot and improve satisfaction, encouraging teamwork to reduce order errors and ensure quality output.

The study also found that service and product value innovation had a positive relationship the restaurants cost performance with service value innovation having a higher significance towards the restaurants cost performance. The two independent variables (product value innovation and service value innovation) that were studied contributed to cost performance by 76.3%. These restaurants used the following strategies to lower their operational costs: improving their inventory systems so as to reduce materials handling costs and waste, introducing better menu management strategies to reduce food service costs and implementing labour scheduling strategies to reduce labour costs.

On service time performance of the selected restaurants service value innovation and product value innovation were positively related to service time performance with service value innovation having a greater significance on the cost performance of the restaurants. The two independent variables (product value innovation and service value innovation) that were studied contributed to service time performance by 76.5%. The study found the service time management strategies that the selected restaurants were using included offering free drinks as customers waited, providing Wi-Fi internet services that allow customers to surf the internet as they wait for their orders while others were integrating technology in customer service to better estimate wait times and improve the process of alerting guests when their orders were ready.

5.3 Conclusion

The study concludes that the selected restaurants employed value innovation strategies to a large extent. They pursued product value innovation through continuous modification of existing products and s introduction of new products to their customers, creating collaboration teams for product innovation, early feasibility testing of product concepts in order to stay ahead of others in the market. Service value innovation was being implemented through gathering customer feedback data for use in future service innovation and improvements, dedicating and investing resources in service innovation initiatives, developing and nurturing a service innovation culture and learning, developing and implementing service innovation policies and schemes and integrating scientific approaches in service innovation.

The study also concludes that both product and service value innovation had a positive relationship with the operational performance of the selected restaurants. These variables related positively to quality, cost and service time as operational performance indicators for the selected restaurants with service value innovation featuring more significantly.

The restaurants were enhancing quality by developing quality control systems that monitor incoming material, work in progress and the output, undertaking customer needs analysis and integrating their needs in service and product design, creating a system and training employees on strategies they can use in reducing order errors, enhancing food packaging in order to keep food hot and improve satisfaction, encouraging teamwork to reduce order errors and ensure quality output.

At the same time they were reducing costs by improving their inventory systems so as to reduce materials handling costs and waste, introducing better menu management strategies to reduce food service costs and implementing labour scheduling strategies to reduce labour costs. Their service time management strategies included offering free drinks as customers waited, providing Wi-Fi internet services that allow customers to surf the internet as they wait for their orders while others were integrating technology in customer service to better estimate wait times and improve the process of alerting guests when their orders were ready.

5.4 Study Recommendations

From the findings the study makes the following recommendations:

Value innovation provides opportunities for business growth and sustainability. The restaurants and the hotel industry would benefit from having a unit or teams focusing on innovation to generate ideas that can be turned into value innovation strategies and would be beneficial to the restaurants and any other organizations.

The study recommends that the restaurants should consider customer feedback when improving / reviewing their products, determine their processes based on product requirements and perform their product improvement initiatives based on existing processes in order to reap the full benefits of value innovation.

Given their nature, value innovation strategies can be difficult to implement if employees with specific skills are not on board. Where this is the case, it is advisable to first of all understand the required skillsets, then seeking people with the same to ensure a seamless implementation of these value innovation strategies.

In other cases, existing employees may require further skilling to bring them to the required level. Training is therefore recommended. This significantly reduces resistance and makes implementation easy.

5.5 Limitations of the Study

The study encountered some challenges one of them being time. The busy nature of the hotel industry and restaurants in particular made it difficult for the respondents to make time to fill the questionnaires and this could be a reason why some of the questionnaires went unanswered. However, the researcher made effort to ensure that as many questionnaires were answered as possible by letting the respondents know the value of the research.

Another challenge experienced was confidentiality. Strategies adopted by different businesses most times remain closely guarded secrets of the concerned companies and hence most people approached were not willing to freely divulge information about their business strategies despite assurances that this will be for academic purposes only.

The concept of value innovation and blue ocean strategy is relatively new and is not well understood. The respondents took time to understand the concept and relate it to the strategic orientation of their restaurants. This extended the time it took to gather data with most requiring further documentation and explanations to be given to them before responding to the study. There was fear from the respondents on whether to respond to the study as they thought it would negatively impact them. However, to tackle the paranoia the researcher clarified the objectives of the study.

5.6 Suggestions for Further Research

The study has explored value innovation strategies and operational performance of selected restaurants in Nairobi, Kenya. However, the hotel industry in Kenya has more restaurants which differ in their way of management and have different settings all together. This warrants the need for another study involving more restaurants which would ensure generalization of the study findings for hotel industry in Kenya and hence pave way for new policies.

While all the selected restaurants admitted to be applying value innovation strategies, the factors that influence their application were not studied. A study on the factors that affect the application of value innovation strategies by restaurants is therefore recommended

Other studies can also be carried out in different industries so as to benchmark on the value innovation strategies applied in these industries and their impact.

5.7 Implication of the Study on Theory, Policy and Practice

The study provides insight into value innovation strategies applied by restaurants in Nairobi, Kenya and their impact on operational performance. It will thus help in expanding the available literature on value innovation strategies and blue ocean strategy providing a basis of reference in the future. It thus enriches the theories on blue ocean strategies and their implementation. The study can also form a guide for further research in future.

The insights from this study can be used by regulators and policy makers in defining better ways to ensure that restaurants and the Kenyan hotel industry at large remain competitive in the global marketplace. Policies on innovation and research can be guided by this study.

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APPENDICES

Appendix I: Questionnaire

**VALUE INNOVATION STRATEGIES AND OPERATIONAL
PERFORMANCE OF SELECTED RESTAURANTS IN NAIROBI, KENYA.**

Introduction

This study seeks to establish the **impact of value innovation strategies on operational performance of selected restaurants in Nairobi, Kenya.** The survey results will be reported in general terms and will not identify individuals. Your support in completing this questionnaire objectively is greatly appreciated. Please tick your response where appropriate.

PART A: DEMOGRAPHICS

1. What is your gender?

      a. Male ☐

      b. Female ☐

PRODUCT VALUE INNOVATION STRATEGIES

1. To what extent do the following statements apply to your organization? Use a scale of 1 to 5 where (1= not at all, 2 = small extent, 3 = moderate extent, 4 = large extent, 5 = very large extent)

Statements about Product Value Innovation	1	2	3	4	5
i. We continuously modify existing products					
ii. We continuously introduce new products to our customers					
iii. Our product improvement initiatives rely on existing processes					
iv. Our processes are determined by product requirements					
v. We consider customer feedback when improving / reviewing our products					

2. The application of product value innovation can help your organization thrive in the competitive hotel industry. In the light of this statement, how does your organization understand and apply product value innovation strategies?

_____

_____

_____

SERVICE VALUE INNOVATION STRATEGIES

3. To what extent do the following statements apply to your organization? Use a scale of 1 to 5 where (1= not at all, 2 = small extent, 3 = moderate extent, 4 = large extent, 5 = very large extent)

Statements about Service Value Innovation	1	2	3	4	5
i. We provide unique customer experience					
ii. We provide unique customer experiences to different categories of customers					
iii. We continuously review / change our business processes					
iv. Our organization is structured in a flexible manner					
v. Our organization devotes adequate resources to support service delivery					
vi. Employees have flexibility in determining the best way to offer service					
vii. Our operations are highly dependent on technology					
viii. Relevant information is easily available at the point of need					

4. The application of service value innovation can help your organization thrive in the competitive hotel industry. In the light of this statement, how does your organization understand and apply service value innovation strategies?

_____

_____

_____

_____

OPERATIONAL PERFORMANCE

5. To what extent do you agree with the following statements?

1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree

Statements about Quality	1	2	3	4	5
i. Overtime we have seen improvement in our product quality					
ii. Over time customer complaints have been reducing					
iii. Over time we have seen an increase in customers who always prefer our restaurant					

6. Suggest quality improvement strategies for your organization.

_____

_____

_____

_____

7. To what extent do you agree with the following statements?

1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree

Statements about Cost	1	2	3	4	5
i. Changes adopted have lowered operational costs					
ii. Changes adopted usually result in reduced resource usage e.g. staff numbers requirements					

8. Suggest cost reduction strategies for your organization.

_____

_____

_____

_____

9. To what extent do you agree with the following statements?

1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree

Statements about Service Time	1	2	3	4	5
i. Changes put in place have reduced customer waiting time					
ii. We have ways of keeping customers occupied as they wait to be served					
iii. We always inform customers of expected service time					

10. Suggest strategies for managing service time in your organization.

_____

_____

_____

_____

-THE END-

Appendix II: List of Selected Restaurants

The research site of the study will be selected restaurants based in Nairobi central district which include:

Restaurant	Number of Employees
Java Coffee House	36
Ronalos Restaurant	38
Highlands Restaurant	110
Green-view Restaurant	22
Debonaires Restaurant	48
Gallittos Restaurant	46
Total	**300**