

Role of Innovation in Small and Medium Enterprises Performance: A Case of Maize Flour Millers in Meru South Sub-Counties, Kenya

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ABSTRACT

The purpose of this study was to investigate the role of innovation in Small and Medium Enterprises (SMEs) performance with a specific reference to Maize Flour Milling Enterprises in Meru South Sub-Counties, Kenya. The study sought to investigate the type of innovation and its role on firm performance, determine other factors influencing performance and to establish barriers to innovation among the maize flour millers. Innovation is key element in entrepreneurship and is vital to the success and growth of many organizations. Although some studies link good business performance to innovation others associate performance with other factors such as first-mover advantage and access to resources. The study adopted descriptive research survey design with the sample taken from the population using stratified random sampling method. The result indicates that only about 34% of the SMEs embraced some innovation while 58% had little or no innovation. The most innovative SMEs reported higher revenue and increased market share while less innovative SMEs recorded declining revenue and stagnation. To be competitive, SMEs need to be driving more innovation in their products, services and processes while adopting new technologies. It is therefore recommended that for the SMEs to perform well and grow, should find innovation opportunities and allocate more resources for innovative initiatives.

Key words: Innovation, growth, performance, competitiveness, SMEs, entrepreneurship.

INTRODUCTION

Small and Medium Enterprises (SMEs) are widely recognized as the key drivers of economic development world over. In Kenya, SMEs contribution to the economy is widely acknowledged, they cut across all sectors of the economy and provide many employment opportunities and generate widespread economic benefits (Government of Kenya, 2005). As a result of this contribution and recognition, central issue dominating policy debates around the world and in particular a developing country is how to stimulate growth through the development of the SME sector (Chuta, L.M. (1994), (Obeng, R.H. (2009). Research supports the notion that SMEs that engage in innovation activities are better performers (Freel, M.S. (2000). Innovation is key element to entrepreneurship and is vital to the growth of many organizations. It provides opportunities for new inventions and building of new markets (Kuhn and Marisck, 2010). To remain competitive in today's modern world, Teece (2007) observed that organizations require innovations.

Innovation covers a wide range of areas such as the introduction of new products and services or their improvements, finding new markets and new marketing methods, new production processes and new forms of organizations. This concept of innovation according to Joseph Schumpeter was referred to as the force of creative destruction. It is necessary as it provides value to the customers and a good return to the organization which contributes to growth and good performance. In order for Small and Medium Enterprises (SMEs) to overcome the several constraints that they face and grow into large entities, they must be innovative (Cannarella and Piccioni, 2003).

Besides innovation, other frequently discussed dimensions related to growth are first-mover advantage, barriers to entry, brand loyalty, technological advancement and access to resources among others (Porter, 1980; Robishon et al., 2001; Rogers, 2003). Access to resources including funding for instance is viewed as important as it enables growth by developing all sides of the business which includes developing new products.

Despite the critical role played by the SMEs sector in the Kenyan economy, there has been a high failure rate among these enterprises. According to KNBS (2007) three out of four or at least 60% of the businesses fail within the first few months of operation. Megginson et al (2003) have associated the poor performance to poor business knowledge, poor management and inexperience. Others such as Amyx (2005) have attributed poor performance to the negative perception towards the SME sector and their products.

The purpose of this study therefore, seeks to establish the role of innovation on the performance of small and medium maize flour mills enterprises in Meru South Districts, Kenya.

Statement of the Problem

SMEs based in agriculture and in value addition are critical to the development of the Kenyan economy as they form the bulk of most economic activities and are significant in employment creation and poverty alleviation.

However, despite the dominance of the SME sector and their important in the Kenyan economy, many of them fail, performing poorly or are in a state of stagnation. Innovation in SMEs performance has been explored by several researchers (Amara et al 2008) but the results have not been conclusive

despite the generally accepted belief that innovation leads to better performance. Some studies associate firm performance to other factors other than innovation.

It is in view of this that this paper sought to explore the role of innovation on the growth and performance of small and medium maize flour mills enterprises in Meru South Sub-Counties, Kenya.

Research Objectives

The study aimed to achieve the following objectives

1. To identify the type of innovation adopted by the small and medium maize flour mills and their role on the firm performance.
2. To identify other factors influencing firm performance among the small and medium maize flour mills.
3. To determine the barriers to innovation among the small and medium maize flourmills.

Literature Review

There has been a growing interest in the growth and performance of SMEs particularly those based on agriculture and value addition. According to the economic recovery strategy for wealth and employment creation (2003-2007) (GoK, 2003), the productive sector in the context of economic recovery strategy is agriculture. The sector provides 62 per cent and over two thirds of manufacturing value added is based on Agriculture. The important of the sector is particularly apparent in its ability to provide reasonably priced goods, services, income, employment and alleviation of poverty hence contributing to social and economic development of the country. According to the Kenya National Bureau of Statistics (KNBS) (2010), the SME sector employed 8.3 million people in 2009 representing 75% of total employment and contributed to 18.4% of Gross Domestic Product (GDP). Furthermore, most of the businesses in Kenya like in many other parts of the world fall under the SMEs category.

Several studies link growth of many organizations to innovation (Coad, 2009). (Hajar,2015), examined the relationship between innovation and performance of wooden furniture manufacturing SMEs in Indonesia and the study revealed innovation has positive effect on performance. Laforet (2010) observed that today's market leaders, besides having visionary growth strategies, also need to focus heavily on innovation while (Kuswanto, 2012) reveal that innovation in the distribution channels is positively related to overall firm performance. The study finds that entrepreneurial orientations through innovativeness to be positively associated with SMEs performance. The need for innovation is the need to provide high quality and produce products at the lowest possible cost and continuously meet changing customer needs. The concept of innovation is therefore necessary to provide value to the customer and a good return to the business. In order for SMEs to overcome the several constraints they face and grow into large entities they must be innovative (Cannarella and Piccioni, 2003).

Innovation is referred to as the use of improved products, processes, services, technologies or ideas accepted by markets (Christensen, 2002). According to Schumpeter (1934) this concept of innovation was referred to as the 'force of creative destruction' which is manifested in four dimensions; introduction of new products and/or services, introduction of new market and new marketing methods,

new method of production and new form of organizations. Most categories of innovation fall under product innovation and process innovation. Product innovation is the introduction of a good or service that is new or significantly improved or enhanced performance or additional of new features into the existing products (OECD, 2015) On the other hand, process innovation refers to the new procedures, policies, organizational forms and knowledge embodied in the distributional channels, products, applications, as well as customer expectations, preferences and needs (Gupta, 2013).

Innovation can be in three forms ;(1) Incremental innovation which makes small changes to a firm's existing technologies and business model, (2) breakthrough innovation which make significant changes to either technology or business model producing significant growth and (3) radical innovation which takes place more rarely combining technology and business model to create major new industries with exponential growth,

While several studies link innovation to good performance among SMEs, it has also been suggested that firms can achieve growth through other means. The most frequently discussed dimensions related to growth include, time-to-market, first-mover advantage, barriers to entry brand loyalty access to assets and distribution channels (Porter, 1980; Robinson et al., 2001; Rogers, 2003).

There are however different views regarding the role of innovation on SMEs growth Rosenbusch et al., (2011) in the analysis of the relationship between SME innovation and performance found out that innovation-performance relationship is context-dependent suggesting that within the SME context, innovation does not just lead to direct performance but there are other intervening variables such as size, location and type of innovation. Gupta (2010) argues that performance is not an outcome solely resulting from innovation. According to Ndesaulwa. P and Kikula. J (2016) success or failure in innovation should be viewed as a necessary but not sufficient cause of business performance and survival.

The issue of innovation and how it relates to performance particularly among the SMEs is yet to be explored exhaustively as the results from reviewed literature are mixed and inconclusively as a result of other variables such as ownership structure, large or small and the number of partners among others. While some studies suggest SMEs are more innovative due to their flexibility (Kaufmann and Todtling, 2002) they are also limited in their innovative capacity due to their financial and human resources.

SME MAIZE FLOUR MILLS PERFORMANCE

The SMEs has many definitions and varies from country to country and the economy. The session Kenyan paper number 2 of 2005 defines a SME as an enterprise with between 1-50 employees. Many of the definitions are categorized on other criteria such as ownership, formality, number of employees, sales turnover and capital investment. The World Bank for instance defines an SME as one that fits to either of the criteria; formally registered business, employees between 5-150, asset base of at least Ksh 4million and with sales turnover of ksh 8-100 million.

Maize flour milling dominates the economic activities in most of the rural Kenya and more so in Meru South Sub-Counties. According to Jaffer et al. (1995) one or two thirds of manufacturing value added is based in agriculture raw materials and many services are linked to agriculture. Maize is also the

most important staple food in Sub-Saharan Africa and is the main food crop in Kenya representing 3 per cent of Kenya's GDP and 21 per cent of the total value of primary agricultural commodities. Facing a growing population, several studies (Pingali, 2001; World Bank, 2003) note that it is critical for Kenya and other African Countries to increase maize production in order to feed their people. Maize flour and maize is increasingly becoming an important food for its convenient availability with the millers milling flour for direct consumers and institutions.

Despite the importance of the SME sector, there is high failure rate. According to Kenya Bureau of Statistics (KNBS) (2007), three out of four or at least 60 per cent fail within the first few years of operation. Amyx (2005) observed that one of the significant challenges that the SME sector face is the negative perception. Megginson et al. (2003) cited poor business knowledge and poor management as contributing to the poor performance.

Theoretical Perspective

Resource Based View (RBV)

RBV argues that firms are able to outperform others if they can develop valuable resources and capabilities which cannot be imitated. Alvarez Busemitz (2001) argues that access to resources by founders of business is an important predictor of opportunity base entrepreneurship and new venture growth. Some studies however, contest this theory and believe that resources are not the major determinant of growth but how those resources are used.

METHODOLOGY

The study adopted descriptive research design. The study was carried out in Meru South Districts and targeted owners/Managers of 87 small and medium sized maize flour mills active and registered under Tharaka Nithi County Government. It was found necessary to select all the maize flour mills in the six wards since they were not many and a 100 percent response rate was unlikely considering that a few had closed while others the owners or the Managers were not available. Both open and closed ended questionnaire were used to obtain information from the respondents. Validity and reliability tests were carried out and confirmed. Data was collected and analyzed using descriptive statistics and inferential to confirm the relationship.

RESULTS AND DISCUSSION

This chapter presents and discusses the research findings. It has outlined the role of innovation on the performance of small and medium maize flour mills enterprises in Meru South Sub-Counties, Kenya. The response from all the 87 respondents interviewed was received which was 100%.

Type of innovation

Four major types of innovation were considered; new products, their modification or improvement, getting into new markets or new marketing methods, new processes and new technologies. Technological innovation was measured by the extent of adoption and modification of new technologies from other sources. Technological innovations referred to the use of new modern and more efficient mills, information and skills. Results showed that 43% of the responding firms had adopted new technologies and adapted them to their operations, products and services. Thirty six percent of the respondents agreed that research and development was an important aspect in

developing efficient production systems which were cost efficient. Sixty three percent of the respondents agreed that an investment in technology would help a firm to realize higher profits as opposed to 36 percent of the respondents who did not believe that investing in technology would yield to higher profits for the business. The findings of the study is in consistent with that of Bucheikh et al.,(2006) who established that technological innovation is key to a firm's competitiveness.

Thirteen percent of the respondents agreed that innovation of new products can help the business achieve more profits due to increased level of sales of the new products and 15 percent strongly disagreed that innovation of new products would not hold any bearing on profit margins of the business. Only 4 percent of the respondents did not think that new products would influence the level of sales revenue generated. They believed that new products were costly and risky and they could influence growth negatively. The study established that about 34% of the small and medium maize mills enterprises in Meru South Sub-Counties of Tharaka-Nithi County, Kenya had some form of innovation ranging from new and improved products, changes in their operating processes as well as innovative distribution systems.

Other factors influencing firm performance

The finding of the study reveal that managerial skills of the owner/managers positively influence the growth of Small and medium maize flour mills enterprises in Meru South Districts. Seventy eight decimal nine per centum (78.9%) of the corresponding change in growth of SMES can be explained by a unit change in managerial skills. One can therefore deduce that the tendency of owner/manager to engage in and support new ideas, novelty, experimentation and creative processes results in new products, services or technological processes which has a great influence on the performance of SMEs.

The study also found out that social capital influences the growth of Small and medium maize flour mills enterprises in Meru South Sub-Counties. According to the findings sixty three decimal six per centum (63.6 %) correspondence on growth of SMES can be explained by a unit change in social capital. This indicates that social capital which entails a solid stock of connections, interactions, relationships, linkages, closeness, goodwill, and loyalty between a firm and its customers, downstream clients, strategic partners or other external stakeholders is an important element of intellectual capital that has a positive and significant influence on the growth of Small and medium maize flour mills enterprises in Meru South Sub-Counties. Location of the maize mill which was in reference to proximity to the market and convenience was also found to have a strong influence on performance as indicated by 66% of the respondents.

Barriers to innovation

The study found that despite the positive impact of innovation, it comes with certain amount of costs. Innovation is considered useful only when the benefits acquired are more than the cost borne by the firms. In reality, innovation development requires high capital, skills and uncertainty. Worse still, innovation normally attracts a host of imitators. As a result of this, it may gobble up the profits that the first mover raises, and finally many resource-constrained SMEs may have to withdraw from the market. The cost, uncertainty and the risk involved with innovation is therefore one of the biggest barrier to innovation among the SMEs in the Meru South Sub-Counties of Tharaka-Nithi County.

Innovation and Performance

The results show that there is a significant relationship between innovation and performance of small and medium maize flour mills enterprises in Meru South Sub-Counties. About 58% of the enterprises low in innovation have stagnated and not shown any growth signs with sales and workforce remaining the same for years with about 8% had their operation decrease. Enterprises that embraced innovation about 34% were reported to have performed better in terms of increasing their market share, sales increase as well as expanding their market coverage. These firms were offering better products, services, responding to customer needs better and were more efficient and keeping costs down through new production methods and technology. These findings are in line with those of Storey and Greene (2010) who stated that innovation processes in SMEs is linked to high growth while low growth maintained status quo. Hajar (2005) and Lin (2007) also noted that innovation had a positive relationship with the performance of SMEs.

Conclusions

The purpose of the study was to establish the role of innovation on the performance of small and medium maize flour mill enterprises in Meru South Sub-Counties of Tharaka-Nithi County, Kenya. Among the most notable type of innovation included adoption of new modern and more efficient technologies, improvement of existing products, services, finding new markets and diversifying the business operations. Other major factor influencing firm performance was Managerial/education level of the owner/managers, social capital and location of the business which was linked to customer convenience. Barriers to innovation included the cost associated with the innovation, risk and uncertainty of the innovation outcome. Most of the businesses that had embraced higher degree of innovation indicated that they had realized increases in sales, customer base, and increase in market share and profits in monetary sense. Innovation is such a vital component in any business undertaking that without it, it is virtually impossible for a business to survive due to the increased competition that is observed within industries. It also enables firms to meet the changing customer needs. The concept of innovation among SMEs is therefore necessary to provide value to the customers and a good return to the business.

Recommendations

The study makes the following recommendations:

- a) In order to meet the ever changing customer needs, grow and survive in the competitive market maize flour mills in Meru South Sub-Counties need to be more innovative in production, processes and marketing. This will go along in reducing operation cost, improve efficiency, capacity and help increase on profits.
- b) Maize flour mills enterprises in the Sub-Counties need access to government centers for research and development as this can be a crucial strategy for the growth and development of businesses. Access to technologies depends largely on government policy and a strong will to implement those policies. Moreover, inputs to innovation processes in SMEs are increasingly observed to be coordinated with external parties, such as universities and customers which enable them to reduce R&D costs.

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