

Innovativeness and Firm Performance among Family Owned Enterprises in Nairobi County

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ABSTRACT

Small and Medium Family Owned Enterprises (SMFEs) are the engines of economic development through job creation and poverty reduction in most developing countries. Majority of the multinational corporations started as family owned enterprises. Currently, the Small and Medium family owned enterprises (SMFEs) sector in Kenya contributes over 70% of the country's GDP. This is in spite of the many issues surrounding this vital sector which include low performance compared with non family enterprises, high mortality rate especially after the founder exits, lack of finances among others. The study sought to establish the relationship between innovativeness and small and medium family owned enterprises performance in Kenya. Resource Based Theory and Schumpeter's theory of innovation were the theoretical framework for this study. Descriptive and exploratory research designs were adopted. The study population was the manufacturing small and medium family owned enterprises registered by Kenya Association of Manufacturers based in Nairobi City County. The respondents were the Founders, C.E.Os, Directors and Managers of the firms. Data was collected using a questionnaire and the quantitative data was analysed by calculating the response rate with descriptive statistics such as mean, median, statistical deviation and proportion using Statistical Packages for Social Scientists (SPSS) version 21 and Microsoft Excel. Inferential data analysis was carried out by the use of factor analysis and correlation analysis to determine the strength and the direction of the relationship between the dependent and the independent variables. Regression models were fitted in and hypothesis testing was carried out using multiple regression analysis and standard F tests and t-tests. The qualitative data was analysed using content analysis. Microsoft Excel was used to analyse the frequencies of the emerging themes. Data was presented in form of graphs, tables and pie chart among others.

1.0 Introduction

Globally, Small and Medium Enterprises account for 99% of businesses and 40% to 50% of GDP (Brown and Harris, 2010). Previous studies indicate that in both developed and developing economies, SMEs contribute on average, 60% total employment and maximize the efficiency of the resource allocation and distribution by mobilizing and utilizing local, human and material resources (Ayyagari, Beck, and Demirgüç, 2007, Cunningham and Rowley, 2007). Entrepreneurship research on family businesses is increasing but still scarce (Naldi et al., 2007, Ngugi 2012, Anwar 2013) even though family businesses constitute a major portion of all national economies (Astrachan and Shanker, 2003; Chrisman *et al.*) According to a survey by PriceWater House Coopers (PwC), 2014 on family business in Kenya, the growth prospects are high. Their contribution to the country's GDP is between 50-70% according to the Kenya Economic Survey 2010 (ROK, 2010). With the economy attracting the right skills and talent, political instability and lack of innovation will be the key challenges to growth over the next 5 years (PWC, 2014). For a business to be successful it must engage in entrepreneurial activities in order to revitalize its operations and have a competitive edge (Cruz and Nordqvist, 2010). Family enterprises form a distinct organizational type which influences the impact on innovation (Roessl *et al.*, 2010). They are associated with being conservative (Habbershon *et al.*, 2003), less eager to grow (Poza *et al.*, 1997) and/or are less innovative compared with non family firms. The increased competition exerted on the firms translates that the small and medium family enterprises must prioritise innovativeness as one of the strategies that will bring about long term success of the enterprises through product, market, process innovations among others (Malburg, 2000; Rosenbush et al, 2011).The study therefore wished to establish the relationship between innovativeness and the performance of small and medium family owned manufacturing enterprises registered by KAM in Nairobi County.

2.0 THEORETICAL DEVELOPMENT AND LITERATURE REVIEW

2.1 Resource Based Theory

The theory posits that organizations are endowed with resources such as human resources, technological resources and organizational routines. In order to attain sustainable competitive advantage, the acquisition of unique resources and capabilities together with organizational capabilities should be prioritised (Barney, 2002).How a firm's systems among other attributes, enable it to achieve competitive advantage is the main

interest of RBV. The theory points out that a firm can gain sustainable competitive advantage only by creating value in a way that's rare and difficult to imitate by the competitors.

In order to realize a long term superior performance, small and medium family owned enterprises must come up with strategies that will help utilize maximally the firms resources by adopting an entrepreneurial behaviour, through continuous innovation of the existing products ,introduction of new products, enlarging their markets, adopting the upcoming technologies among others.

2.2 Schumpeter Theory of Innovation

According to Schumpeter (1934), a dynamic entrepreneur is the person who innovates, who makes "new combinations" in production. He argues that an entrepreneur disrupts markets and causes new ones to be formed in circular flows. The 'true' entrepreneur causes a radical change that is discontinuous with the previous flows by obtaining and using information caused by these 'tides of creative destruction'. He describes innovation as ; the creation of a new good or new quality of good; creation of a new method of production; the opening of a new market; the capture of a new source of supply; a new organization or industry (e.g., creation or destruction of a monopoly) among others.

Schumpeter observes that people act as entrepreneurs only when they actually carry out new combinations, and lose the character of entrepreneurs as soon as they have built up their business, after which they settle down to running it as other people run their businesses (Schumpeter, 1939). For Schumpeter (1939), an entrepreneur is not only an innovator but also a leader. Thus, the main characteristic of an entrepreneur is innovation and leadership, Schumpeter's entrepreneur does not necessarily start his own business and does not have risk-taking as one of his functions, (Tarabishy, Lloyd and George, 2005).Adam Smith in Wealth of Nations argues that innovation requires the investment of money and that it's an important economic activity inducing gains. Therefore Schumpeter (1942) believed that larger firms are more innovative than smaller firms. This theory was further refined by Galbraith (1952).The main objective of firms is to maximize profits. Larger firms are able to achieve economies of scale, diversify, develop market reputation etc. as shown by empirical studies, (Scherer 1965, Cohen and Klepper 1996). Nelson (1959) argues that the more widespread the reputation and name of firm, the higher the chances of full exploitation of its research efforts. The empirical analysis of Schmoookler (1972) showed that after a certain 'large' size, the efficiency of an inventive activity varies inversely with firm size. Williamson (1965) further explains the factors which hinder innovation in a large firm. The 'scarcity of ideas' is another reason why large firms are less innovative. Hicks and Buchenan (2003) argue that smaller firms are in a better position to exploit an innovation combined with their focus on new innovative technologies. Smaller firms are also more efficient in the use of capital and labour resources (Acs and Audretsch 1991). However both large and small firms exhibit advantages and disadvantages. An innovation study carried out in some Latin American firms (Arocena and Sutz, 2000) finds that little is invested in innovative activity. According to Kumar and Saqib (1996), in India, a study on small and medium-sized firms finds that vertical integration, export orientation and competitive pressures heighten the need for spending on Rand. This means that innovation is the key to SMEs growth and development especially in the developing nations. In today's business world, technological advancement has changed how business is done, has brought about shorter product life cycles, customer awareness among others. This translates that family owned and non family owned businesses must come up with strategies requiring their enterprises to continually innovate and to quickly adapt and renew their strategies in order to retain their competitive edge.

2.3 Conceptual Framework

A diagrammatic presentation showing the relationship between dependent and independent variables is known as conceptual framework (Kothari, 2011). In the current study the dependent variable; performance of family owned enterprises was operationalized as increase in market share, increase in sales and changes in profit. The independent variable innovativeness was measured using introduction of new products, adoption of new technology.

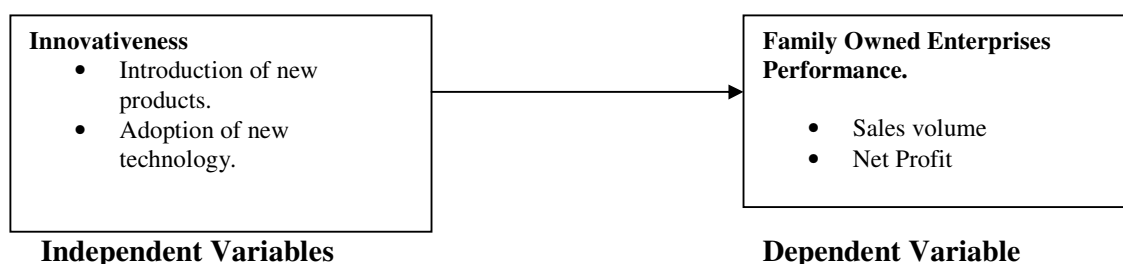


Figure 1 Conceptual Framework

2.3. Innovativeness and Small and Medium Family Owned Enterprises Performance

The importance of innovativeness and its influence on firm performance has been portrayed both theoretically and empirically. Countries and companies that continually innovate contribute significantly to economic growth. USA, Japan and some European countries that invest heavily in R&D and have the highest patent activity are the drivers of the world's economy (Ahmed & Sherperd, 2010). Kraus, Rigtering, Hughes and Vincent (2012) indicated that both organizational and managerial innovations have a positive relationship with the overall company success as well as product innovation intensity. Artz, K.W, Norman, Hatfield, D.E,L.B (2010) study showed that firms ability to generate innovations is critical to improving performance and maintaining its competitive advantage. Atalay, Anafarta and Sarvan (2013) proved that technological innovation (product and process) has a significant and a positive impact on firm performance. An increased performance can be achieved by small firms if they invest well in innovativeness. This emphasis was laid by a Hilgers (2011) study that indicated that innovativeness contributed largely in influencing firm performance positively as compared with other firms' dimensions namely proactiveness, risk taking, competitive aggressiveness and autonomy. Kimani (2015) revealed a positive relationship between the adoption of financial innovation and performance of SMEs in Kenya. A total of 487 SMEs registered by Kenya Revenue Authority (KRA) was the sample size.

3.0 RESEARCH METHODOLOGY

3.1 Sampling and Data Collection

The study adopted cross sectional survey research design because it sets to explain the current phenomenon through the use of systematic and controlled methods in data collection (Mugenda and Mugenda, 2007).The population of interest was the registered family owned small and medium manufacturing enterprises by Kenya Association of Manufacturers (KAM 2015) located in Nairobi City County. Non probability convenience sampling procedure, a process of acquiring sampling units or people who are most conveniently available was used. This is an effective way of obtaining a large number of completed questionnaires (Zikmund 2005). Simple random sampling was used to select 201 SMFEs conveniently available. Primary data was collected using questionnaires whereby a total of 201 questionnaires were given to the C.E.Os, founders, directors and managers of the enterprises since they fully understood the history, the present and the future prospects of the enterprises. , Out of the 201 questionnaires administered, 196 were filled and returned, which represents 97.5% response rate. This response rate is considered very satisfactory to make conclusions for the study. Mugenda and Mugenda (2007) have observed that a 50% response rate is adequate, 60% is good while 70% response rate is very good.

3.2 Measures

The questionnaire was used to measure innovativeness and firm performance. The questionnaire used a five point likert scale whereby the founders, C.E.Os, directors and managers had to indicate to which extent the items represented level of innovativeness in the firms.1= strongly disagree,2= disagree,3=neutral,4=agree and 5= strongly agree.irm performance was measured by asking the founders/owners, directors, C.E.Os and managers to indicate their sales volume for the last five years and also the net profit of the enterprises for the last five years.

3.3 Data Processing and Analysis

Sekaran (2003), indicates that there are three objectives in data analysis which include:- a) getting a feel for the data. A feel for the data gives the researcher an idea of how well the respondent have reacted to the questions in the questionnaire and how good the questions or items and measures are. This includes descriptive statistics such as the response rate, mean and standard deviations of the observed variables, b) testing the goodness of the data. Establishing the goodness of the data gives credibility to subsequent analysis and findings since it measures the reliability and validity of the measures used in the study, and c) testing hypothesis developed for the research. When the data is ready for analysis, the researcher is ready to test the hypothesis already developed using appropriate statistical tests (Sekaran, 2003).

The quantitative data collected was analyzed by calculating response rate with descriptive statistics such as mean, median, standard deviation and proportions using Statistical Package for Social Sciences (SPSS) version 21 and Microsoft Excel. Inferential data analysis was carried out by the use of factor analysis and correlation analysis to determine the strength and the direction of the relationship between the dependent variable and the independent variables. Regression model was fitted and hypothesis testing carried using multiple regression analysis and standard F tests and t tests.

4.0 RESEARCH FINDINGS AND DISCUSSION

4.1 Characteristics of the Respondents

The demographic characteristics of the respondents showed that 64% were male and 46% were female. 54.6% of the respondents were between the ages 36-50, 26% were between 18-35 years and 19.5% were 50 and above. As far as the education level was concerned, 44.4% had attained college education, 32.7% had secondary education and 23% had university education. Majority had a job experience of 29.6% of between 6-10 years and 11-15 years followed by 16.3% with work experience of 16-20 years and 12.8% who had worked for more than 20 years. The business was between 11-15 years who were 37.2%, 25% aged 16-20 years and 17% aged over 20 years. As far as legal ownership of the business was concerned, 39.3% were partnership, 33.7% were sole proprietorship and 27% were private limited companies.

4.3.1 Innovativeness and Performance of Manufacturing Family Owned Enterprises

The first objective of the study sought to examine the effect of innovativeness on the performance of manufacturing family owned small and medium enterprises in Nairobi County. Since the data was in ordinal scale, mean, standard deviation, frequency and percentages were used to analyse the data as summarized in Table 4.1. Majority 38.3% agreed, 14.3% strongly agreed and 10.2% disagreed that they prefer to scan the market and come up with new and updated products. Secondly, 37.8% agreed, 22.4% strongly agreed and 6.1% strongly disagreed that changes in their products had been many both in design and type. Thirdly, 41.8% agreed, 25% strongly agreed and 10.2% disagreed that their enterprises encourages and supports innovative ideas and always acts on them.

Majority 39.3% agreed and 38.3% strongly agreed that their firm encourages the use of current production methods and processes. Moreover, 36.2% agreed, 33.2% strongly agreed and 9.7% strongly disagreed that their firms always adopts the latest technology in the market. Finally, majority 45.4% agreed, 14.8% strongly agreed and 11.2% disagreed that the firm puts strong emphasis on research and development and improvement of the current products and services.

Table 4.1 Innovativeness and Performance of Manufacturing Family Owned Enterprises

	Innovativeness												
	n=196												
	M		SD		Sd		D		N		A		SA
				n	%	n	%	n	%	N	%	n	%
We prefer to scan the market and come up with new and updated products to satisfy emerging markets	3.7	1.2	22	11.2	20	10.2	51	26	75	38.3	28	14.3	
Changes in our products have been many both in design and type.	3.6	1.1	12	6.1	25	12.8	41	20.9	74	37.8	44	22.4	
The firm encourages and supports research and innovative ideas and always acts on them.	3.7	1.1	11	5.6	20	10.2	34	17.3	82	41.8	49	25	
Our firm encourages use of latest production methods and processes.	4.0	1.1	10	5.1	16	8.2	18	9.2	77	39.3	75	38.3	
Our firm always adopts the latest technology in the industry	3.8	1.2	19	9.7	11	5.6	30	15.3	71	36.2	65	33.2	
Our firm puts strong emphasis on R and D and improvement of the current products and services	3.5	1.1	16	8.2	22	11.2	40	20.4	89	45.4	29	14.8	

*M-Mean SD – Standard deviation, n-Frequency, %-Percentage Sd- Strongly disagree, D- Disagree, N- Neutral, A-Agree, SA-Strongly agree

In addition, the study sought the opinion of the respondents on the influence of innovativeness on firm performance. The pictorial presentation in Figure 4.4 shows that 56.1% reported that innovativeness had a very great influence on firm performance, followed by 31.1% who perceived innovativeness to have a great extent. In contrast 7.1% reported that innovativeness had a low extent against 4.1% who perceived innovativeness to have a very low extent.

The findings concur with Lin and Chen (2007) that innovation is an important factor to the success of an organisation. This is because it fuels organizational growth, drives future success and is the engine that allows businesses to sustain their viability in a global economy. Atalay et.al (2013) also points out that technological innovation (product and process) has a positive and significant relationship with firm performance. Innovation brings about the success of the firm, its survival as well as creating a sustainable competitive advantage (Jimenez & Sanz-Valle, 2011). It also provides knowledge about how things can be done better than they are been done currently. Kimani, (2015) also proved that innovation has a positive effect on firm performance. Therefore, every enterprise that wishes to succeed in these liberalized competitive global, regional and local markets must invest in innovation. This will ensure that it's able to satisfy the customers changing tastes and preferences, attracting new ones as well as sustaining its competitive advantage.

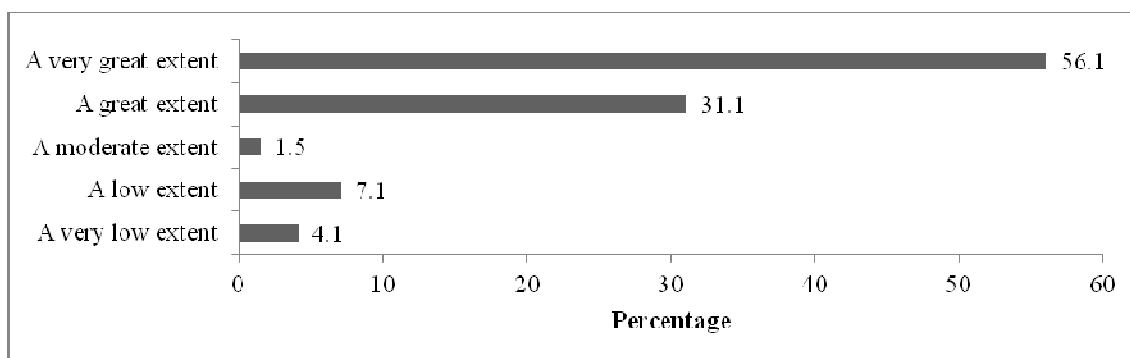


Figure 4.1 Innovativeness and Performance of Manufacturing Family Owned Enterprises

4.4.3 Test for Significance of Innovativeness and Performance of Manufacturing Family Owned Enterprise

Hypothesis one:

Null hypotheses: H_{01} . Innovativeness has no significant effect on performance of manufacturing family owned enterprises in Nairobi County.

Alternative hypotheses: H_{11} . Innovativeness has significant effect on performance of manufacturing family owned enterprises in Nairobi County.

Results in Table 4.2 shows the model explanatory power as measured using R squared (coefficient of determination). An R squared of 4% shows that innovativeness explains 4% of the variation on performance of manufacturing family owned enterprise while the remaining percentage can be explained by other factors excluded in the model.

Table 4.2 Innovativeness and Performance of Manufacturing Family Owned Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.202a	0.04	0.04	0.98	1.84

a. Predictors: (Constant), Innovativeness

Results in 4.3 show the analysis of variance which tests whether the independent variables has a joint significant influence on performance of manufacturing family owned enterprise. Model 1 shows that there a significant relationship between innovation and family owned performance.

Table 4.3 Innovativeness and Performance of Manufacturing Family Owned Enterprise ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.955	1	7.955	8.251	.005a
	Residual	187.045	194	0.964		
	Total	195	195			

a. Predictors: (Constant), Innovativeness

b. Dependent Variable: Performance of Manufacturing Family owned enterprise

Results in Table 4.4 show the regression coefficients which indicate the nature of the relationship between independent variable and dependent variable. Model 1 indicates that there a positive and significant relationship between innovativeness and performance of manufacturing family owned enterprise ($\beta = 0.202$, p value <0.05). This implies that a unit change in innovativeness increases performance of manufacturing family owned enterprise by 0.202 units.

The results of the current study go hand in hand with findings of previous scholars (Fairoz, et al., 2010; Azlin et al., 2014; Otieno, 2012). Even though the populations under study were different, there is a common agreement. Competitive strategies have also been found to moderate the association between EO and family owned business performance. As Porter (1980) argued, in a competitive environment, firms ought to acquire strategies that will help them get an advantage over the others. This has proved to be effective ways for the entrepreneurs to develop new tactics that will see the business enjoy loyalty from its customers. This serves to explain why all the three dimensions of EO had a significant relationship with business performance.

The results of the impact created by innovativeness on the family business performance have not only been found to be positive but also significant. This means that for a higher performance in the small and medium family-owned businesses, a higher level of innovativeness, as depicted in the act of producing new products or offering unique services from time to time, finding novel solutions to the upcoming challenges and by the use of new techniques in administration and operations, need to be observed. This study has shown the relevance of hiring innovative employees and tactics to help increase the sales volume and profits to be realized by the business. Just like Hilgers (2011) who studied Netherlands' manufacturing firms, innovative businesses performed better than other firms that adopted different dimensions of EO.

Similarly, the current study confirms the findings of Ali and Abdel (2014) and Yong *et al.*, (2008) that found innovative businesses do have a weak positive relationship with firm performance. Further, despite Verhees' et al., (2008) study failing to establish whether creativity/ innovativeness has a significant impact on the firm performance, they seem to agree to this study that the relationship exhibited by the two variables is positive.

In addition, firms that are able to offer a new combination in their output generation and those that complements customers with updated and advanced products/services will always win the heart of their customers and hence the increase in sales volume and ultimately profits. The finding in this study concurs with Schumpeter's theory of innovation of 1939 which argues that an entrepreneur must act innovatively in order to bring about radical changes that continue to happen in a circular flow. Lin and Chen (2007) that innovation fuels organizational growth, drives future success and is the engine that allows businesses to sustain their viability in a global economy therefore it is a key factor to the success of the business.

Table 4.4 Innovativeness and Performance of Manufacturing Family Owned Enterprise Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		Sig.
		B	Std. Error	Beta	T	
1	(Constant)	-2.56E-16	0.07		0.00	1
	Innovativeness	0.202	0.07	0.202	2.872	0.005

a. Dependent Variable: Performance of Manufacturing Performance of manufacturing family owned enterprise

5.0 CONCLUSIONS AND RECOMMENDATIONS

5.1.1 Innovativeness and Performance of Manufacturing Family Owned Enterprise

The study sought to examine the effect of innovativeness on manufacturing small and medium family owned enterprises performance. To achieve this, mean, standard deviation, frequency, percentage, correlation and regression analysis were used. On average most of the respondents agreed that innovativeness had an influence

on firm performance. Correlation analysis revealed a positive and significant relationship between innovativeness and performance of manufacturing small and medium family owned enterprises ($\rho = 0.202$, p value < 0.05). Similarly, regression analysis showed a positive and significant relationship between innovativeness and performance of manufacturing small and medium family owned enterprises and the model explained 4% of the changes in firm performance.

From the findings it can be concluded that there is need to examine the innovativeness employed by manufacturing companies. This is especially so considering the need to gain competitive advantage and foster positive firm performance. Since innovativeness has a significant influence on performance of manufacturing small and medium family owned enterprises should adopt measures aimed at gathering knowledge geared towards developing customized products to increase customer satisfaction and minimizing the production costs.

5.1.2 SUGGESTIONS FOR FURTHER STUDY

The study had several limitations which can be addressed in future studies. The study concentrated on small and medium studies in Nairobi County. The study findings indicated that there is a positive and significant relationship between innovativeness and the performance of small and medium family owned enterprises. A similar study can be done covering more counties in the Republic of Kenya. Also, a longitudinal study can be carried out to test whether it would give similar findings.

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