FACTORS INFLUENCING ADOPTION OF INNOVATIVE STRATEGIES ON SME’S IN KENYA: A CASE OF KABETE TOWN KIAMBU COUNTY

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UNITED STATES INTERNATIONAL UNIVERSITY – AFRICA

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A Research Project Report Submitted to the Chandaria School of Business in Partial Fulfillment of the Requirement for the Degree of Masters in Business Administration (MBA)

UNITED STATES INTERNATIONAL UNIVERSITY – AFRICA

SPRING 2017
STUDENT’S DECLARATION
I, the undersigned, declare this my original work and has not been submitted to any other college, institution or university other than United States University-Africa in Nairobi for academic credit.

Signed: _________________________ Date: _________________________

Eric C Kimani (ID 641603)

This project report has been presented for examination with my approval as the appointed supervisor.

Signed: _________________________ Date: _________________________

Scott Bellows

Signed: _________________________ Date: _________________________

Dean Chandaria School of Business
ABSTRACT
This research is aimed at establishing the factors that influence the adoption of innovative strategies in SME’s in Kenya as they are perceived to be one of the engines that drive the economy. The specific objectives of this study are: To determine whether human capital influence innovation on SME’s in kabete town, To determine whether organizational capital influence innovation on SME’s in kabete town, To determine whether Discovery influence innovation on SME’s in kabete town. To determine whether exploit influence innovation on SME’s in kabete town.

The research questions were: How does human capital affect innovation on small and medium enterprises in Kenya? Does organizational capital affect innovation on small and medium enterprises in Kenya? Does discovery affect the adoption of innovative strategy on small and medium enterprises in Kenya? And does Exploitation affect the adoption of innovation strategy on small and medium enterprises in Kenya? From the sampling frame a representative sample of 64 enterprises was obtained randomly and structure questioner and interviews were used to gather primary data. The obtained data was analyzed and translated into meaningful information with frequency distribution tables used to draw up conclusions.

The literature review gave more information about the factors influencing the adoption of innovative strategies on small scale enterprises in Kenya though a indepth review on the human capital, organizational capital, the discovery of business idea and the exploitation of the business itself. The research used a descriptive research design in collecting the data from the selected respondents and used stratified sampling technique to select a sample that represented the entire population of 637 enterprises of which a sample of 64 was used. A carefully crafted questionnaire was constructed and tested in order to detect any ambiguities.

The findings indicated that majority of the respondents answered the questionnaire to the researchers expectation with 86%. The researcher found that there was no statistical significant between human capital, organizational capital, discovery and exploit in relation to innovation. The researcher therefore concluded that even though there was a great relationship between the independent variable and dependent variable in other parts of the world where a similar study was conducted Kenyan SMEs posted a different
outcome. Therefore the researcher recommended a further and a different approach in conducting the same research since majority of the SMEs in Kenya did not understand what innovation was all about and the measures used to evaluate innovation were not applicable in Kenya.
ACKNOWLEDGEMENT

The chief sources to which I am indebted are indicated in the reference section of this work. However, I must make mention of my supervisor Scott Bellows of United States International University, through whose guidance, scrutiny and vital comments, I was able to complete this work. I am also grateful to the business people in kabete town for their incredible feedback. My sincere thanks also go to my lovely dear wife milka and Daughter Shana for the moral support towards the completion of this research project.
DEDICATION

I would like to dedicate this work to the following persons who helped me achieve this much in many ways: My dear wife Milkah and daughter Shana, family, friends, colleges and classmates for enabling me to reach this far through patience, tireless effort and sacrifices.
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Problem

Small and medium enterprises are set up for the purpose of starting and running a business for profit maximization and hence contributing largely to economic growth (Pitt, 2010). However, the challenges facing this concept of profit maximization require more than what is available to the entrepreneur in terms of resources, training, and attention among others. As a result of this, the creativity and new ideas decline hindering the acquisition of the relevant skill that drive this sector towards success.

A positive relationship between small and medium enterprises and economic growth in developed countries has been documented (Gibson, 2011). Since the 80’s most of the African Countries implemented economic financial reforms to achieve macroeconomic stability which have led to greater macroeconomic stability, improved economic governance, improved fiscal and monetary management and overall economic performance.

SME’s have been recognized by professional and the governments as one of the engine that drive the economy of a country and uphold private sector development. The growth of this sector translates to the growth of many elements including improved living standards, poverty eradication, employment, and capital formation. On the aspect of planning SME’s are more and more recognized as the principle means for achieving sustainable and equitable diversification. In most countries, including developed countries like china, japan, US accounts for over half of the employments, sales produced and hence contributing to the overall GDP (Reynold, 2010).

Up until the early 60s economist viewed the progression of small business in less developed countries to be as a result of scarcity in management experience and capital which was argued that with economic growth the small traditional business will be superseded by the modern form of large scale production to ensure an organized
transition. Small industries were enjoying more attention and support mainly in sectors where modern techniques were applied (Pitt, 2010).

From the “African employment report” (ILO/JASPA, 2010) the small and medium enterprises make a significant contribution to the (GDP) of most of the African countries i.e. Nigeria (24.5%), Benin (17.7%), Liberia (34.6%) and Kenya (19.5%). In our country Kenya this sector is expected to play a role in employment creation and as the projection for 2000 this sector was expected to create 75% of the urban jobs and 50% of the jobs in the rural areas (ILO, 2012). Currently this sector employs (40-60%) of the urban labour force.

It is recognized generally that small and medium enterprises face unique challenges which affect their innovation capability hence hindering their ability to contribute effectively to the development of the economy. The cited problems are lack of human capital, organizational capital and discovery & exploitation of ideas (Harper, 2013). A recent study by International center for Economic Growth (Ackerman, 2003) and central Bureau of Statistics (CBS), indicated that a lot needs to be done to small and medium enterprises with regards to management and information, human capital, training among other issues faced by SME’s. However it indicated that policy formation by the government remains to be a major shortcoming and focus need to be maintained inorder for the intervention programs to have meaningful impact on small and medium enterprises.

In Kenya SME’s has concentrated in retail services hence providing for the majority of the jobs in various sectors i.e. agriculture, wholesale, transport and restaurant among others. Startups of businesses have been attracted to this sector because it requires less capital to start. The Kenyan population has grown significantly hence creating unemployment due to poor planning resulting to the crop of small business that provide income to this population. The Government promised 500,000 jobs every year and this has not been realized so far and as a result of this new business will continue being created without proper structure or knowledge for the sake of survival and to provide for the next meal (Reynolds, 2010).
Entrepreneurship is the practice of mobilizing, identifying, exploiting and utilizing ideas, concepts, opportunities in order to earn an income and as well attain desired goals and objectives (Harper, 2013). Also according to Central Bureau of statistics 2012 looks at small and medium enterprises as a constitute of semi organized and unregulated practices carried out by self-employed people in stalls, open markets, streets or undeveloped plots within urban areas. According to Strategic Business Advisor Africa Ltd (SME banking Sector, 2012) indicate that they are about 2.2 million Small and medium enterprises in Kenya (Gourova, 2006).

1.2 Statement of the Problem

Small and medium enterprises contribution to the economy has not been highlighted adequately. This sector plays a vital role in the growth of the Kenyan economy. Economic Survey (2006) indicated that over 50% of new jobs are created from this sector but despite this significance three out of five businesses fail within few months of operation (Kenya National Bureau of Statistic, 2007). This issue is of great concern not only to the business owner but to the government, private co-operations, and citizen among others. The government through its policies and budget allocations has acknowledged this crucial role and has made effort to energize this sector (Perker, 2011). There have been grants, incentives and support agencies all geared towards making the SME’s sector a success. Despite of all this efforts the sector still faces challenges interms of Innovations and due to improper policies and lack of documented information this makes it rather unuseful to anyone who wants to venture into this sector or what to find out more about it. Hopefully this research will enrich and add to the existing data and information available.

According to (Belwal, 2011)cited the lack of Innovation strategies as a challenge on their business on the initial stage before they are able to break even, this has made many of the business to collapse because they don’t have creative ways to sustain themselves throughout this phase. Also the sector being characterized by many uneducated people and hence the aspect of proper management becomes a big issue for them to scale up the business from one stage to the next. Literature review has further shown factors such as Human capital, Organizational capital, Discovery and exploitation as some of the challenges posed by SMEs in developing countries that leads to lack of Innovation (Appelbaum, 2007). Time is now for us to do something surgical to safeguard
this sector inorder to achieve the vision 2030. Given the importance of the SME sector in the Kenyan economy and the fact that they are prone to failure if they don’t innovate hence there is a need to investigate this factors that affect them when it comes to innovation strategies that if tackled well this sector will grow and thrive.

1.3 Purpose of the Study

The main purpose of this study was to determine factors influencing the lack of innovation strategies on small and medium enterprises in Kenya with specific reference to selected entrepreneurs from Kabete town Kiambu County.

1.4 Research Questions

The research will sought to solve the following questions

1.4.1 How does human capital influence the adoption of innovation strategies on small and medium enterprises in Kenya?

1.4.2 How does Organizational capital influence the adoption of innovation strategies on small and medium enterprises in Kenya?

1.4.3 How does Discovery influence the adoption of innovative strategies on small and medium enterprises in Kenya?

1.4.4 How does Exploitation influence the adoption of innovation strategies on small and medium enterprises in Kenya?

1.5 Significant of the study

1.5.1 Entrepreneur

This study created availability of information to SMEs on the factors that influence the adoption of innovation strategies on their businesses and what they can do to mitigate them. Also the knowledge acquired will not only improve the performance of their business but also help them to survive.

1.5.2 Financial Institutions

The study will be significant to the financial institution as they develop product to suit the target market of Enterprise. It will give them more information on what strategy the business are adopting and they can create products to suite them hence improving their business as well.
1.5.3 The Government
The study will be significant to the government because it act as a base from where these businesses are carried out. Through the policies formation the government will be well informed on which measure to take to encourage more and more businesses to innovate and grow this sector.

1.5.4 Scholars
This research will contribute to the body of knowledge on factors affecting the adoption innovation strategy on small and medium enterprises in Kenya. It will act as a source of knowledge for further research on SMEs and scholars will find the outcome of the research useful as a source of literature review when carrying out research on other areas related to SMEs.

1.6 Scope of the study
The study was confined to SMEs in Kabete town Kiambu County. According to registrar of companies the registered business in kabete town are 637 which represent the target population in this area and a sample size of 64 was selected for the research which was deemed to be sufficient for the research. The research time frame was September 2016-Nov 2016.

1.7 Definition of Terms

1.7.1 Small and medium enterprises (SMEs)
SMEs are defined in Kenya as a small business employing 9 people or less.
(Hisrich, 2008)

1.7.2 Entrepreneurship
This is the practice of mobilizing, identifying, exploiting and utilizing ideas, concepts, opportunities in order to earn an income and as well attain desired goals and objectives. (Harpat, 2011)

1.7.3 Human Capital
This is Intangible collection of resources possessed by individual and groups within a given geographical area. These resources include all the knowledge, talents, skills,
abilities, experience, which are possessed by this individuals collectively. (Richard Huff 2011 human capital economics

1.7.4 Organizational Capital
Organizational capital can be defined as the accumulation of firm’s resources and business strategies. Ideally there are two variables related to the renewal and development component of an organizational capacity (Reynolds P. , 2007)

1.7.5 Discovery
Discovery in perspective is the identification and the refinement of venture ideas this is mostly prior to the business startup, it’s the conceptual aspect of the business process were emerging entrepreneurs seek, encounter or improve product and services to take advantage of curtain markets(Reynolds P. , 2007).

1.7.6 Exploitation
Exploitation is the process in which business people actually work on the business idea by acquiring resource and entering or creating a new market (Cropanzano, 2003)

1.7.7 Innovation
The introduction of a new good, new quality of a good; the introduction of a new method of producing goods; the opening of a new market opportunity; the conquest of a new source of supply of raw materials and partially manufactured goods; or the application of a new form of organization in any industry, such as the creation or breaking up of a monopoly position. (Davidsson, 2005)

1.8 Chapter Summary
This chapter looks at the background of the study, Statement of the problem, objectives of the study, significance of the study, scope of the study and definition of terms. Chapter two will present literature review based on the specific objectives of this research paving way for chapter three that will look at the research methodology that will be used in this research.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

The chapter looked into the related literature that involves factors influencing the adoption of innovative strategies on small and medium enterprises industry globally, regionally and also in Kenya.

The main aim of the literature review was to give the researcher background information about the topic under investigation and how the factors have been reviewed and documented by other scholars. The factors looked into included Human capital, Organizational capital, Discovery and Exploitation.

2.2 Effect of Human Capital on Adoption of Innovation Strategies

Most researchers who are interested with the relationship between entrepreneurship and success of it have emphasized on the importance of the entrepreneur in the process of success of the business. Past studies have indicated that human capital is necessary for the success and survival of these small businesses (Corbett, 2005).

The theory of human capital tries to argue that people try to gain reward for the investment they have put in through human capital (Belwal, 2011)and seek to maximize the benefit of it. The Idea that firm success is influenced by its human capital is not new (Piliavin, 1991). The firm higher stock of human capital causes it to be successful in various ways due to a mixture of qualities posed by the employees and as a result they are able to innovate hence offering it a competitive advantage over its rival businesses (Baum, 2004). Entrepreneurs who engage the employees by investing more in their human capital are more likely to enjoy the benefit of their investments as compared to those who don’t (Callero, 2007). Present literature on entrepreneurship has had a number of arguments about how human capital increases innovation in a business and eventually making it a success. First, Human capital help the business owners to discover and exploit a business opportunity which in most cases is not easy to identify if the human capital is not present on an entrepreneur, Increase on human capital enables the business to be more
innovative because of the diverse ideas, experience and thought patterns that individual brings on the table (Shepherd, 2005). Secondly human capital is associated with strategic planning which brings in the aspect of being innovative inorder to achieve the strategic ideas that an entrepreneur may have, in achieving this the business is able to thrive and grow exponentially.

2.2.1 Knowledge of Human Capital

The knowledge that human capital brings to a business is immense and well related to human capital on the aspect of acquiring of knowledge which is an ingredient of total human capital (Strahan, 2006). The knowledge can help discover a new line of business or a new set of customers. Also this can help in mobilizing of financial resources that can be used to expand the business or acquire other additional resources that can be of much usefulness to the business. This knowledge also contributes a lot in other innovative strategy that boost the growth and expansion of the business which in the end compensate for the lack of other important resources i.e. financial resources (Anderson J. &., 2009).

Owners of must of small medium enterprise with greater human capital achieve a great deal of business growth and are able to bring out various innovative strategies which contribute highly to the business as opposed to those without the human capital in their business (Hoang, 2003). Contend that all workers have specific knowledge, skills and experience that they have acquired in their previous working life, also they may have acquired experience from training attained previously, which contribute towards their value on human capital. This value is well expressed on the performance of the individual in the business and how they are able to handle various task assigned to them that differentiate them from any other person with lower human capital. Business that have individual with a higher human capital enjoy a diverse range of resources that together contribute to the business being able to adopt innovative strategies and hence keeping them above the pack in the business environment. This is a rare thing in most of the country to have such skills (Hoang, 2003). Overall the literature that has been in existence emphasizes the great importance of the human capital to small and medium enterprises success. This literature also distinguishes between the different characteristics of individuals within the business, such as professional proficiency, training, social related skills and experience. Studies in the past have shown that entrepreneurs with higher level of human capital on their employees have a very high chance of being innovative and
hence be able to withstand the ups and down’s of the business and still manage to grow and post positive profitability’s (Coleman, 2007). There is widespread settlement that social capital in a business which is in form of resources that are embedded in the entrepreneurs personal networks which is critical to the performance of small firms. For example network connections enables entrepreneurs to identify new business opportunities or new markets, obtain resources at cost that are below market rate, and increase legitimacy through external stakeholders (Coleman, 2007).

2.2.2 Human Capital competence

The link between human capital and the competence of a person has been proved in the study of Liao and (Yao, 2007) were he stated that the ability of a person to be competent in his work is highly based on the human capital he has in terms of skills and knowledge acquired. This competence can be determined by the way an Entrepreneurs Evaluation his business performance which is one of the key things that can help the Owner determine if the business is innovating or not but unfortunately this concept is grocery underestimated by SMEs. This is the case because of the inadequate knowledge base necessary to assess a financial statement which in the end can help them make adjustments on the financial positions (Verheul, 2013).

According to (White & Yu, 2004) stated out that many entrepreneurs would prefer to avoid the subject of Financial statement when this topic is brought out and their response is “they will employ an accountant to do the statements for me “which is very unfortunate for them because they think because there business are small they don’t need this accounting method, though it does not matter the size every business needs proper financial management system for it to make innovation strategies which will lead to business growth. The knowledge of financial system helps the owner to now the status of his business financially and he is able to project based on the information acquired from this (Hoang H. &., 2012).

ECA,(2011) carried out a study on enhancing the competitiveness of small micro enterprise in Africa. The study found out that shortage and insufficient financial institutions for SMEs support was a major obstacle for their innovation. Example the Senegalese private sector was incapacitated due to the fact that most financial institutions were not fully equipped to serve the SME sector.
According to (Morris, 2009) the study agree on how crucial management is to the successful performance of any enterprise. Management competence encompasses management skills, Functional skills and behavior management. Hence competence such as financial control, marketing and networking are management functions. Nevertheless the goods produced from this sector are low compared to those produced by more formal settings (Kithylo, 2014)this can be attributed to lack of relevant skills or low quality of materials used to produce. This is evidence as most of the SMEs lack sufficient knowledge, technical training and skills that are necessary to do business in the modern and highly competitive markets.

It’s the responsibility of the management to formulate the necessary financial controls in the business so that all necessary records are well kept. Decisions such as the type of market to adopt, what and when to advertise, size of the market, pricing policy, staffing and employee training are all management functions in the docket of an entrepreneur (Munene, 2011).

According to (Storey, 2011)the factors that affect growth of a business were; ownership, business performance management/people and location of the business. However (Kupferberg, 2010)who studied entrepreneurial career commitment and humanistic concluded that most important factors of success among entrepreneurs were; Strong analytical skills, Investing in personal reputation, broad biographic experiences outside the professional field, successful records of previous work, and the ability to communicate effectively with customer’s

According to (Ploruiman, 2010) view’s management as a technique by which the objective and purpose of a particular human group are determined, affected and clarified, Sir Charles however sees management as a process of getting things done through agency and community with a view to fulfill the purpose for which it exists. Charles emphasized the accomplishment of the task through the efforts of the people, It implies that the manager has the duty to guide and coordinate the efforts towards the realization of this goals which can only be achieved when the owner has the knowledge and the skills about management (Sekaran, 2013).
(Orwa, 2011) stated that people venture into business without proper planning and sometimes for wrong motives mostly for making money. Even if they anticipate making money it’s good to have objectives in place which will help organization to realize its purpose and this will act as a guide line of the firm’s relations to its employees, clients, government and lenders. In addition to be effective the owner needs to have a good understanding of different style of leadership.

2.2.3 Human Capital Network

In previous years there have been several studies that have been conducted focusing on human capital, their relationship with individual networks and their effects on the groups and organizations (Hoang 2003). Network on human capital not only influences individuals but also has a significantly effect on the way that organizations are managed, run, maintained and sustained (Omri and Frikha, 2012). The role that networks plays on human capital are not only studied within the discipline of sociology but are also increasingly being used to understand entrepreneurial behavior in the new enterprises start up phases, development, success and growth (Granovatter 2005).

However fewer studies have empirically tested the influence of human capital on small and micro-business innovation. Among these various studies are those of Blumberg and Honig 1998. This study confirms the important role of human capital and particularly the influence on entrepreneur’s innovative capabilities as they also include the networking on their firms. The role of human capital and its influence on the entrepreneurs plays great role in making the firm succeed. This fore mentioned approaches gives a suggestion that accessing this capital by a firm is an essential element of small business success Honig 1998.

2.3 Effect of Organizational Capital on the Adoption of Innovation Strategies

It’s well known that new firms usually face serious difficulties to survive the initial stage of their operation. Lack of organizational capital is attributed to these failures such as product quality, and firm’s ability to adapt to the changing environment.

Organizational capital can be defined as the accumulation of firm’s resources and business strategies. Ideally there are two variables related to the renewal and development
component of an organizational capacity (Roos et al., 1998) one which is the level of adaptation to the market and firm age, which mostly appears to be crucial to explain the new venture growth and success. The adaptation to the market represent the different changes produced within a firm during the initial stage of building the business that helps in meeting the market conditions such as number of new products, quality, price of the product, customers, suppliers, location and partners. Organizations that persist in refining their strategies to adjust to the new markets conditions are the ones that thrive and perform best (Birley 2001). Businesses that have a firm strategy and that are oriented toward quality tend to operate better and succeed. While owners of this businesses which are both stable and growing always consider innovation as an important strategic activity to remain in business for them to remain competitive as compared to businesses that consider low pricing (Kalleberg 2001).

2.3.1 Organizational Capital Adoptability
The empirical evidence about the business indicates that an organization with capital adoptability enables it to adjust to market dynamics and results to growth and eventually innovate Leitch (2001). In additional to learning in an organization there are other firms attributes that although are tangible are important in explaining new business innovations, in the case of large sums of financial resources at the moment of the firms creation contribute to a positive endurance of the business. Furthermore a great founding team of entrepreneurs with additional accumulation of experience within a firm allows the innovation expansion of business sources of financial (Hofer 1999). Interestingly these firms grow both the sales and market share making their businesses to be more competitive. Organizational capital elements such intra-firms learning, business strategies, structural flexibility are relevant components of the intellectual capital embedded within a firm which seems to influence the firms’ survival and growth (Leitch 2001). The empirical evidence about the business indicate that firm flexibility for adapting to a market which is perceived to be a high potential determines the business success and growth.

More investment in organizational capital is expected to yield a higher productivity of individual. While the economic value of organizational capital cannot be questioned and an important question that entrepreneurs are asking is what type and how much organizational capital is required to make my business to be innovative (Bates, 1999).
The business resources, strategies, experience and motivation that entrepreneurs bring to a business can be expected to determine the innovative level of a business as they contribute toward the pillar of organizational capital.

The knowledge based acquired in institutions of higher learning can be enriched with business experiences which can be associated with prior involvement of entrepreneur in the management position. The studies has shown that business are more likely to innovate when entrepreneur have had prior experience in an organization were innovation was present at a prior company (Stuart 1998). Another useful experience is the prior creation of a business which create a lot of learning lesson especially on the startup stage where most business face a lot of challenges (dyke et al,1996). Others not so profound experience is learning from people within your networks who have gained experience in running the business.

In additional to the organizational component of a business, venture success can be determined by the owner characteristics of a business. Typically prior studies have shown the effect that a business age and size affect the survival and growth of a business (Birley 1997). Another significant of a business character is its legal form by which a company is created; some studies reveal that organization performance is considerably superior when the business is started by a team of strategic entrepreneurs (Doutriaux 1992).

2.3.2 Organizational Management Competence
According to (Morris, 2009) the study agree on how crucial management is to a businessman as he embark on innovation strategies. Management competence encompasses management skills, Functional skills and behavior management. Hence competence such as financial control, marketing and networking are management functions. Nevertheless the goods produced from this sector are low compared to those produced by more formal settings (Kithylo, 2014)this can be attributed to lack of relevant skills or low quality of materials used to produce. This is evidence as most of the SMEs lack sufficient knowledge, technical training and skills that are necessary to do business in the modern and highly competitive markets.

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realize its purpose and this will act as a guide line of the firm’s relations to its employees,
clients, government and lenders. In addition to be effective the owner needs to have a
good understanding of different style of leadership.

A study of challenges facing SMEs in Nigeria noted that poor management inadequate
competent personnel were some of the major challenges facing SMEs in the country
(Onugu, 2011). He argued that in order for us to view and asses this issue of poor
management in its true perspective, it would be imperative to outline the circumstances
leading to it and also the implication it has on business innovative strategy. A small size
company because of their sizes and scope of operation cannot afford nor attract the “A-
Class” type of management that is enjoyed highly by large organizations. The “A” type of managers needed to man this type of Industries usually prefers to take appointment in large companies or the public sector which could give them room for advancement. Those left to take up appointment with medium sized industries are those either not able to secure lucrative appointment or those with inadequate education or professional qualification and training in the field. Implication of having wrong management in the right place is that decisions are made that are wrong due to lack of enough professional to give the right advice. An investment company in an appraisal report of one company felt that inefficient management have led to innovative issues,(Onugu, 2011)

The study also made it clear that weakness in companies information technology, administration, human resource, finance and accounting arise from the lack of personnel with adequate education and technical background that can promoter SME and their staff. Inadequate managerial, technological and scientific competence among the SME result in less innovative businesses with inadequate capacity on process technology, design and patents, poor and substandard products that cannot compete locally or internationally and Poor managerial ability which also manifests and is reinforced by lack of leadership and inappropriate training in various aspects of SMEs management (Onugu, 2011)

Business innovative strategies are as a result of managerial decisions; these decisions are constrained to the resources of a firm. The larger the amount of organizational capital the more the businessman is provided with more flexibility to undertake a wider array of innovative strategies and therefore would influence positively business success (Cooper et al., 1999). The strategic decision making of a business is an organizational intangible process that is supposed to affect directly the progress of a business. Sandberg and Hofer (1992) found out that firms which emphasized a product differentiation type of an innovative strategy outperformed the rest of the startup business, whereas other studies showed that business strategies oriented towards the production of high quality products were related positively to the survival of a business and the growth of it (Kalleberg 1992).

2.4 How does Discovery affect the Adoption of Innovative Strategies?

The greatest entrepreneurship process is often considered to have two components that is discovery and exploitation of venture ideas. The major task has been to identify the
factors that promote engagement in the start-up process before they are initiated and on the startup stage (Davidsson 2005). Discovery in perspective is the identification and the refinement of venture ideas this is mostly prior to the business startup, it’s the conceptual aspect of the business process were emerging entrepreneurs seek, encounter or improve product and services to take advantage of curtain markets ((Reynolds P., 2007).

As compared to exploitation which is the process in which business people actually work on the business idea by acquiring resource and entering or creating a new market (Coombes, 2006). Recent theoretical models of entrepreneurship identity have proposed strong links between entrepreneur’s self-concepts and subsequent outcomes (shepherd & Haynie, 2009). From various experiment it’s not clear why self-identities motivate entrepreneurial action. However studies suggest that business men have a strong sense of self (Hoang H. a., 2003) and that they tend to see themselves as an out-group different from non-entrepreneurs, this stream of work shows that entrepreneurs themselves strongly distinguish there role from other social roles and have a distinct perceptions about self-meaning associated with the role. For example (Appelbaum, 2007) interviewed technological entrepreneurs to develop conceptions of the innovative process based on the social and subjective self. They stated how the entrepreneur view of himself as an entrepreneur and innovator influenced their actions in various ways.

2.4.1 Discovery of Information
Discovery information accessibility has been the key to many people in search business idea or new market, this information helps them understand the gaps in the market which present opportunities for business. This is information may have been availed through past research or feedbacks Stanley (2010).

Access to Information by business people through the Information and communication technologies (ICT) platforms has been identified as one of the areas that need attention both from the government and business service providers if the SME sector is to achieve any innovative strategies. Businessmen in Africa operate in a poor information environment due to lack of adequate support services and poor information technological infrastructures (Hussain, 2012). Technology accessibility has not been given the same attention as other constraints to the innovativeness of SMEs.
The emergence of technology particularly the internet has allowed small and medium enterprises to compete effectively and efficiently locally and internationally (UNDP, 2010). Technology plays an important role in the field of business and commerce nowadays. As the developing countries struggles with keeping pace with emerging technologies the developed world are forging ahead with E-transformation of businesses. In an ever challenging global society effective use of technology has become crucial for innovative success of businesses especially the SMEs despite the high numbers of acquisition by large organizations. The adoption of technology by big co-operation is not evident in SMEs clearing the fact that SME faces significant and unique challenges in adopting Technology (Sabir R.I & Sabir, 2012).

According to a study of e-commerce in china it was found that many important barriers to e-commerce adoption which include; High cost of Internet access, limited diffusion of computers and lack of online payment processes were identified to directly inhibit e-commerce. According to (Cooray, 2013) inadequate transportation and delivery networks, uncertain tax rule and limited availability of banking services indirectly inhibit e-commerce. (Cloete, 2012)studied that SME adoption of e-commerce is heavily influenced by factors within the organization. Other factors that hindered the adoption were Lack of access to computer software’s, computers, hardware’s and telecommunications at a reasonable price.

According to (Thomala, 2010) in his study on perception of SMEs regarding to contributors of failure of this sector in south African found out that it is an important issue that businesses be properly marketed to make their products to be visible. He argued that it was imperative for SMEs to improve the way they marketed their products as it was indicated by a response carried out which indicated that 65.8% agreed that businesses collapse because of poor product marketing. He also observed that the findings confirmed that Gbadamosi (2006:4)(q.t) found on SMEs limited market capacity that the economic power of many of these SMEs are small, hence they mostly serve their localities and its environment.

(Francis, 2010)acknowledge that small and medium enterprises are important in economies in Africa especially in respect to employment. The globe poses ever increasing
challenges but with the growth of technology some of these challenges will be easily solve if not completely eliminated.

There is a persistent need to connect most enterprises in most parts of Africa with foreign investors to speed up technology upgrade. There is a division between the urban and rural because of lack of infrastructure in the rural areas such as electricity which make it impossible for this small enterprise to access internet. Thus technological change which was meant to bring change to the small and medium enterprises in the rural area is not able to make the change due to these limitations (saunders Gray & Goregaokar, 2014).

Based on the Kenya government (2012) the policy on the use of technology in the creation of goods and services is to encourage the application of it to minimize waste, create possibilities of recycling and use of local and renewable materials. Although this policies appears explicit, it is not clear as to which government intervention or policy measures have intended to affect the manner in which SMEs choice the technology to use.

Just like current identities possible selves have been used to successful predict behavioral outcome related to those selves. Vandellen & Hoyle, 2008 noted that desired future self-image affect behavior most strongly when they are important and meaningful to the individual by activating the process of self-regulation. Particularly more possible as we have discovered, desired future and self-images affect the behavior more strongly when they are more meaningful and important to the individual by activating a process of self-regulation. More particularly the possible selves implicated in the three types of anticipatory self-regulatory functions (Higgins, 2000) that functions through a comparison-adjusted process by providing information about what will happen if a person behaves or may fail to behave in a curtain way or becomes a different kind of a person, providing information concerning a person’s likely to experience when engaging in some activity or an objective and providing responses and feedback information about how a person is doing in relation to undesired or desired outcome.
2.5 How does Exploitation affect the Adoption of Innovative Strategies?

Exploitation on the other hand is the process in which business people actually work on the business idea by acquiring resource and entering or creating a new market (Coombes, 2006). Recent theoretical models of entrepreneurship identity have proposed strong links between entrepreneur’s self-concepts and how they exploit an idea (Shepherd & Haynie, 2009). From various experiment it’s not clear why self-identities motivate entrepreneurial action. However studies suggest that business men have a strong sense of exploiting a business idea (Hemingway, 2005) and that they tend to see themselves as an out-group different from non-entrepreneurs, this stream of work shows that entrepreneurs themselves strongly distinguish their role from other social roles and have a distinct perceptions about self-meaning associated with their role as executors of a business idea. For example Hellstrom and Berglund (2002) interviewed technological entrepreneurs to develop conceptions of the innovative process based on the social and subjective self. They stated how the entrepreneur view of himself as an entrepreneur and how innovation influences how he is able to exploit a business idea (Hemingway, 2002).

2.5.1 Prior Entrepreneurial Experience

Prior start-up experience in starting one’s own firm mostly generates a positive effect on how the entrepreneur is able to execute the business. Davidson and Honig 1997 found out that previous experience in starting own firm typically generate a positive effects on the startup stage of business which determines the level at which the business will grow to. He also found out that previous entrepreneurship experience was positively related to the probability of entering into a new business and making progress in exploiting the opportunity. Similary entrepreneur experience also allows individuals to identify various opportunities and exploit more innovative opportunities.

The belief that past start-up experience provides tacit, familiarity of the role, social networks and explicit knowledge that can help turn entrepreneur motivation into action and be able to exploit a business idea. We are of the opinion that interaction effect existing between past experience and motivation of the entrepreneur brings about growth in the business and the person is able to build on the business idea faster and easier (Hemingway, 2002). Specifically we suggest that individuals equipped with more experience in the identifying an idea and actualizing it would benefit more from this.
experience, this effect will be stronger when it’s paired with strong entrepreneur identity aspiration, this is the case because past experience is about what an entrepreneur can do and identity is based on the willingness of the entrepreneur to do it.

The most considerable effect would occur when an individual has what it takes to engage well in an enterprise and is also interested in doing it as well these results to a successful exploitation of the business which at the end results into strategic innovation and positive progress in the business (Callero, 2007). However several sociological and psychological mechanisms could be at work to produce this effect. First past experience suggest individual learning within the entrepreneurial process have the opportunity to learn from the mistakes they have made in the past and avoid to repeat them in the future With this prial knowledge they may have what it take to exploit a business idea to the fullest and avoiding setbacks on the way(Callero, 2007).

Example from Alsos and kolvereid (1998) found that experienced entrepreneurs tend to carry out earlier adjustments than other without this experience doing it for the first time. Second prior entrepreneur experience provide role familiarity which easily facilitate into the role of an entrepreneur (Macmillan, 1986). Third the past entrepreneurial experience strengthens the identity aspiration behavior which is linked through social ties from past startup involvement to the full maturity of the business. This type of network not only offers direct support for exploitation and discovery activities but also create a better off social context for an individual to receive feedback and identity validation, thereby strengthening and increasing the frequency of role behavior’s that are possibly associated with entrepreneur exploit capability.

2.5.2 Exploit of Entrepreneur aspiration

Entrepreneur aspiration is concerned with something desired but not currently possessed by an individual. In entrepreneurship aspiration first we ask ourselves when an entrepreneur stops being an entrepreneur. Another author looks at one possible view of entrepreneurship and the starting and running own firm. The view define them as business owner implying that the moment one ceases that activity related to business ownership the person will stop being an entrepreneur(Davidsson, 2005).
This implies that an established entrepreneur will become less important to such individuals as identity validation diminishes. Secondly since individuals usually move in and out of roles they refocus their energies on other different aspect of their lives (Carroll 1998), If someone with prior startup experience had acquired an entrepreneurial identity, when does she or he no longer possess it? Hoang (1997) propose that dormant characteristic are those where the self –character remains but it becomes less important than other characters of an individual.

Those with entrepreneur aspiration but who are not the current owners of the business will most likely abandon the entrepreneur identity or have a dormant one that is relatively unimportant. In both cases the entrepreneur self is unrealized and so the aspiration to be an entrepreneur is potentially meaningful even for those with past entrepreneurial experience (Carroll 1998). Taking this into thought we propose that having prior start-up experience coupled with strong entrepreneur identity aspiration would result in greater involvement in gestational events that would either predictor taken alone.

2.5.3 Exploitation of entrepreneurs Innovation

The relationship between exploit and innovation is on the way business people execute their business acquiring resources and entering into a new market. It’s through innovation that this business people stand out of the park by using innovative strategies (Coombes, 2006).

Innovation can be defined as the introduction of a new good, new quality of a good; the introduction of a new method of producing goods; the opening of a new market opportunity; the conquest of a new source of supply of raw materials and partially manufactured goods; or the application of a new form of organization in any industry, such as the creation or breaking up of a monopoly position Schumpeter (2006). Innovation in the aspect of exploitation has been looked at as the ability of a new business to adapt to changes in the environment that affect their market, production, change of price or customers, business that are able to make this changes are often perceive to be business that are well exploited.

The model of entrepreneurial exploitation recently offered by Cardon et al. (2009) specifically identifies the relationship between the exploitation process and innovation especially through the way business people persist through challenges and are committed
to the business venture, this set of attitude results into innovation as they try to make changes to adopt to the new business environment.

Many businesses know that the primary guarantee of a firm to stand out and grow is established during exploitation stage, Thornhill (2006) made a suggestion that effective exploitation of a business inline to innovation is key to developing a business to success as it helps these enterprises to be competitive advantage and increase in profitability (Reynold, 2010). Heunks (2001) defines success as any sign of economic profitability like growth, increase productivity and profit as ingredients that are need for an organization to be termed innovative.

The results of Steven M. Farmer (2006) showed that innovation and exploitation plays an important role for forming a link between human capital, organizational capital, Exploit and Discovery as it acts as the final outcome of entrepreneurs when they have maximally utilized the human and organization capital have sort and executed there business effectively.

The relationship between exploitation and innovation is based on the skill processed by a person who is either acquired through experience or through trainings, this skill enable an individual to be more innovative in solving business challenges. Baldwin and Johnson (1999) stated that the introduction of innovation into the exploitation of a business is both an important part of innovation strategy in small and medium enterprises. They further stated that firms managed by individuals with less experience or who lack formal education have shown to be less innovative (Hoang H. &., 2012). According to Romano (1998) must owners of small business often lack the type of training or education that is connected to innovative activities? This lack of skills prevents small firms from transforming the knowledge of customers into new products and services. This challenge is commonly experienced during the exploitation of a business.

The study by Koellinger (2008) showed that educational background of managers, entrepreneurs and owners of the business have shown to be more important factors in the innovativeness of small businesses. Thornhill (2006) study went ahead and interviewed 845 Canadian innovative firms and demonstrated that there is a positive relationship between individual knowledge, training and experience which are attributes of a person running the business and innovations. Similarly Koskinen and Vanharanta (2002) also
determined that knowledge, learning and experience gained in the enterprise can play an important role in making the business thrive and innovative.

Penrose (2001) indicated that the idea of a business innovativeness being influenced by exploitation is not a new concept. The more the business owner stocks up his experience in running the business the more innovative it will be and the competitive it will be to its rivals (Brown et al, 2005). When people engage in businesses, those who invest more in themselves as business owners are more likely to evolve and enjoy their companies that those who invested in less of themselves (Callero, 2007).

There is a great argument about how exploitation increases business innovativeness. First the owners self-experience and knowledge acquired makes it easier for him to identify and exploit business opportunities that are not easily noticeable by others (Verheul, 2013). Second his knowledge can be used as a planning strategy and risk mitigation strategy that in turn can positively affect the business success. Thirdly knowledge from the businessman can be used to add more resources such as financial, physical capital and market share. Finally micro-enterprises owners with higher exploitation capabilities tend to achieve a greater profitability as compared to those with less (Honig, 1998). Cantner et al (2010) argues that all employees have specific knowledge and competence they have acquired through their past experience and training which contributes to their value as businessmen.

2.6 Chapter Summary

This chapter reviewed literature in relation to the factors that influence the adoption of innovation strategies on small and medium enterprises in Kenya. The first section of the literature review looked at the extent to which Human capital influence the adoption of innovation strategies on SMEs in Kenya. The second section looked at how Organizational capital influences the adoption of innovative strategies on SMEs in Kenya. The third section looked at how the discovery of a business idea influences the adoption of innovative strategies on SMEs in Kenya and the fourth section looked at how exploitation of a business venture influences the adoption of innovative strategies on SMEs in Kenya. The next chapter will discuss the research methodology that was used in this project.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

The chapter gives an explanation on the design used the methodology employed and the population targeted and a justification of using the research design. It also describes the type and source of data and the characteristic of the population used in the study and the technique used to obtain the sample, the procedures and description of the sample method used, procedure of data collection and collecting instruments. Finally it describes how data was collected and the appropriate data analysis methods which was used to obtain the data.

3.2 Research Design

It refers to the overall strategy that is chosen to integrate the different components of the study in a logical and coherent way, to ensure that one addresses research problem effectively (Saunders, 2012). The design provides the framework for evidence generation that is suited to a certain criteria and to the research question in which the investigator is interested in. The study used descriptive research design a scientific method involving watching and portraying the conduct of a subject without affecting it in any capacity. According to Creswell (2012) state that a descriptive research design is used if the data collected is to describe a person, organizations, settings and phenomena. The design used it because it helped the researcher to obtain information concerning the status of phenomena. The design helped the research observe and describe the behavior of the subject under study without influencing it and therefore considering descriptive research as most appropriate for the study.

3.3 Population and Sampling Design

3.3.1 Population

Neuman (2010) refers to population as a group of people or study subject which is similar in one way or more and which forms a subject of the study in a particular way. According to registrar of companies the registered business in Kiambu town are 637 which represent the target population in this area.
3.3.2 Sampling Design

A stratified sampling technique was used to ensure that certain sub-groups in the population were well represented in the sample population. Stratified technique refers to as the process of selecting a sample in such a way that identified subgroups are represented in the sample in the same proportion as they exist in the population (Patton, 2012). The population was divided into homogenous sub-groups known as strata, from each stratum a random sample was selected randomly which eventually is combined with other strata to represent the population.

3.3.2.1 Sampling Frame

From the 637 owned SMEs a sample size of 64 was chosen from the population which represented 10% of the target population.

3.3.2.2 Sampling Technique

A sampling technique involves the procedure of selecting a sample from a population (Schindler, 2010). The researcher used stratified random sampling. The technique ensured that different groups to be adequately represented in the sample result. The method was cost effective and consumed less time as compared to other sampling designs. Respondents were selected using their type of business they run. The activity was followed by picking of one respondent after the other systematically starting with sole proprietor, followed by the one with partnership then followed by family owned and finally others proportionate to the stratum sample size. The selected respondents from each station were summed up to form the total sample size.

3.3.2.3 Sample Size

The sample size is a tinier set of the bigger populace (Schindler, 2010). It must be keenly chosen to be an agent of the populace and the requirement for the researcher to guarantee that the subdivisions involved in the examination are precisely catered for. The research had a sample size of 64 small and medium enterprises. This sample size is believed to be
large enough to provide the data required for this research. This is indicated in the table below

Table 3.1 Sample Distribution

<table>
<thead>
<tr>
<th>Category</th>
<th>Target Population</th>
<th>Sample Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole Proprietorship</td>
<td>265</td>
<td>22</td>
</tr>
<tr>
<td>Partnership</td>
<td>187</td>
<td>18</td>
</tr>
<tr>
<td>Family Owned</td>
<td>101</td>
<td>10</td>
</tr>
<tr>
<td>Others</td>
<td>84</td>
<td>14</td>
</tr>
<tr>
<td>Total</td>
<td>637</td>
<td>64</td>
</tr>
</tbody>
</table>

3.4 Data Collection Methods

Data was collected using questionnaires and personal interviews. Questionnaires are a pre-planned set of questions designed to give a specific type of information to meet the need of the researcher. The structure of the questioner was likert structure. The reason for using questionnaires is they focus directly on the issue of the research and can be used to collect more data and can also be sent on mail to respondents or use the services of a research assistant to take to the respondents.

3.5 Research Procedure

A pilot test included 6 respondents was done to assess the accuracy of the questionnaires. The respondents were not part of the actual sample. This guaranteed the reliability of the information gathering instruments utilized. Based on the feedback from the six respondents, the necessary changes were done on the questionnaire and the final questionnaire prepared for collection of data. The researcher sought permission from the county council to conduct the research supported by an introductory letter from the university indicating the purpose of collecting the research. Upon authorization of the questionnaires they were disseminated to the respondents with the help of
research assistant who helped in enhancing the speed of data collection. The respondents were given two days to complete the questionnaire and a reminder sent via text message to remind those who hadn’t filled the questionnaires. The questionnaires were then collected after the two days and a sequential number given to each questionnaire.

3.6 Data Analysis Methods

(Levine, 2010) states that data analysis methods help to describe facts, detect patterns, develop explanations, and test hypotheses. This study being descriptive used descriptive statistics including frequencies, percentages, mean, standard deviation, as well as use of inferential statistics like regression to analyse data. Statistical Package for Social Sciences (SPSS) programming was used to analyze data for this study. The finding of the study was presented in tables, charts, and graphs. This was used to organize, summarize, and present the analysed data enabling the researcher to meaningfully describe distribution of measurements (Schindler, 2010). The data was also explained and presented using tables, frequencies, percentages, bar and pie charts. Apart from the pre-testing of questionnaires, the researcher applied the Pearson Product Moments Coefficient of Correlation, Analysis of Variance and Chi-square tests to ascertain validity and reliability of the research data.

3.7 Chapter Summary

The chapter indicates why the research design was appropriate for the collection, interpretation and analysis of the obtained data. It also shows the questionnaire that was used for primary data collection and how they were distributed with the help of a research assistant. The use of Excel and Spss to analyses the returned questionnaires.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

This chapter looks into responses of the research in regard to our research questions of the study and demographic information of respondents. The researcher was able to establish a response rate of 86% which was adequate for data analysis and interpretation. Out of the 64 respondents we got 9 who did not complete the questionnaire due to various reasons.

4.2 Response Rate

The study targeted 64 respondents in collecting data with regard to the research questions and the objective of the study from the study, 55 out of the 64 sample respondents filled-in and returned the questionnaires making a response rate of 86%. This reasonable response rate was made a reality after the researcher made personal calls and visits to remind the respondent to fill-in and return the questionnaires.

4.3 Background information

Duration of time the Respondent's business has been in existence

![Figure 4.1: Duration of time the Respondent's business has been in existence](image)

The study sought to find out the duration of time the respondent's business has been in existence. From the findings, 4% of the respondents indicated that their businesses had
been in existence for more than 5 years, 13% of the respondents indicated that their businesses had been in existence for 4 years, 17% of the respondents indicated that their businesses had been in existence for 3 years, 24% of the respondents indicated that their business has been in existence for 2 years while 42% of the respondents indicated that their business had been in operation for less than 1 year.

The main business activities of the Respondent's Business

![Main Business Activities](image)

**Figure 4.2: The main business activities of the Respondent's Business**

The study sought to find out the main business activities of the Respondent's Business. From the findings, 40% of the respondents indicated that they were in the Service industry, 17% of the respondents indicated that they were in the Education industry, 9% of the respondents indicated that they were in the Construction industry, 28% of the respondents indicated that they were in the Trading Industry, while only 6% of the respondents indicated that they were in the agriculture industry.

**Respondent Gender Distribution**

The table below shows the gender distribution of respondents; Male were 63.6% and Females were 36.4

**Respondent Gender**
4.4 Human Capital and Innovation

This section aimed at determining the effect of Human capital on small businesses in Kiambu. The aspects addressed included highest level of education, management experience, level of training the business person has received before and entrepreneur’s level of experience.

4.4.1 Highest level of Education

Table 4.1 shows the level of Education from the respondent. From the table, the study confirms that 18% of respondents agreed to have attained a University Degree, 55% had attained a college Diploma while 18% of the respondents have achieved a high school qualification. The respondent who had achieved primary school education was 9% and none of the respondent indicated to have not gone to school.

Table 4.1: Level of Education
Table 4.2 shows the respondents feedback from the level of education they have received. From the table, 6% of respondents stated they have never received any training on entrepreneurship before, 17% indicated that they have rarely received training on entrepreneurship before while 35% showed that they sometime get the training. 27% of the respondents indicated that they oftenly receive training and only 15% of the total respondent who indicated to be receiving the training very often.

Table 4.2: Training

<table>
<thead>
<tr>
<th>DISTRIBUTION</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Never</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>Rarely</td>
<td>9</td>
<td>17</td>
</tr>
<tr>
<td>Sometimes</td>
<td>19</td>
<td>35</td>
</tr>
<tr>
<td>Often</td>
<td>15</td>
<td>27</td>
</tr>
<tr>
<td>Very Often</td>
<td>8</td>
<td>15</td>
</tr>
<tr>
<td>Total</td>
<td>55</td>
<td>100</td>
</tr>
</tbody>
</table>

4.5.2 Received Management Training Before

Table 4.3 shows the respondents feedback on management training they have received before. From the table, 4% of respondents stated they have never received any management training on entrepreneurship before, 20% indicated that they have seldomly received training on management before while 27% showed that they have partially experienced the training. 38% of the respondents indicated that they have experienced the training and only 11% of the total respondent who indicated to have fully received the management training before.

Table 4.3: Management Training
4.4.3 Have Entrepreneurship experience

Table 4.4 shows the respondents feedback on entrepreneurship experience they have received before. From the table, 4% of respondents stated they had no entrepreneurship experience, 15% indicated that they have a slight experience and 29% of the respondent indicated that they had partial experience on entrepreneurship. 36% of the respondents indicated that they had experience on entrepreneurship and only 16% of the respondent who indicated to be very experienced.

Table 4.4: Entrepreneurship experience

<table>
<thead>
<tr>
<th>DISTRIBUTION</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not at all</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Seldom</td>
<td>11</td>
<td>20</td>
</tr>
<tr>
<td>Partial Experience</td>
<td>15</td>
<td>27</td>
</tr>
<tr>
<td>Experienced</td>
<td>21</td>
<td>38</td>
</tr>
<tr>
<td>Very Experienced</td>
<td>6</td>
<td>11</td>
</tr>
<tr>
<td>Total</td>
<td>55</td>
<td>100</td>
</tr>
</tbody>
</table>

4.5 Organizational Capital and Innovation

This section aimed at determining the effect of Organizational capital on small businesses in Kiambu. The aspects addressed included changes you have made on product or services, Pricing, marketing and source of Financing during your initial stage of the business? Your perception on the growth potential of your business, the number of partners in the business, duration the business has been in existence, the importance of quality, price and innovation to your business.
4.5.1 Made changes to product and services

Table 4.5 shows the level at which respondent’s feedback on changes they have made to their products and services. From the table, the study confirms that 11% of respondents strongly agreed that they had made changes to product and services, 47% of respondents agreed that they had made changes to product and 22% of the respondents were not sure if they had made changes. 14% of the respondents disagreed to have made any changes while 6% strongly disagree.

**Table 4.5: Adjustment to product and services**

<table>
<thead>
<tr>
<th>DISTRIBUTION</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Disagree</td>
<td>8</td>
<td>14</td>
</tr>
<tr>
<td>Not sure</td>
<td>12</td>
<td>22</td>
</tr>
<tr>
<td>Agree</td>
<td>26</td>
<td>47</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>6</td>
<td>11</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>55</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

4.5.2 Growth potential of the business

Table 4.6 shows the level at which respondent’s perception on growth potential of there business. From the table, the study confirms that 6% of respondents perceived that there business had no potential of growth, 24% perceived that there business had potential to grow while 41% perceived there business to have a high potential of growth and 29% perceived a very high growth potential.

**Table 4.6: Growth Potential**

<table>
<thead>
<tr>
<th>DISTRIBUTION</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>No potential</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Potential</td>
<td>13</td>
<td>24</td>
</tr>
<tr>
<td>High potential</td>
<td>23</td>
<td>41</td>
</tr>
<tr>
<td>Very High potential</td>
<td>16</td>
<td>29</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>55</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>
4.5.3 Duration of the business

Table 4.7 shows the response on the duration of their businesses. From the table, the study confirms that 25% of respondents' businesses were less than 6 months old. 17% of the respondents' businesses were between 6 months to 1 year old. 31% of the respondents' businesses were between 2 years and 5 years old while 27% of respondent businesses were 6 years and above.

Table 4.7: Duration

<table>
<thead>
<tr>
<th>DISTRIBUTION</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 6 Months</td>
<td>14</td>
<td>25</td>
</tr>
<tr>
<td>6 months – 1yr</td>
<td>9</td>
<td>17</td>
</tr>
<tr>
<td>2yr – 5yrs</td>
<td>17</td>
<td>31</td>
</tr>
<tr>
<td>6 yrs and above</td>
<td>15</td>
<td>27</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>55</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

4.5.4 Importance of low pricing to business

Table 4.8 shows the respondent’s feedback on their perception of low pricing to their business. From the table, the study confirms that 17% of respondents stated that it was very important, 27% indicated that low pricing was important while 27% were uncertain of the low pricing. 16% of the respondent showed that low pricing was unimportant while 13% showed that low pricing was strongly unimportant.

Table 4.8: low pricing

<table>
<thead>
<tr>
<th>DISTRIBUTION</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Unimportant</td>
<td>7</td>
<td>13</td>
</tr>
<tr>
<td>Unimportant</td>
<td>9</td>
<td>16</td>
</tr>
<tr>
<td>Uncertain</td>
<td>15</td>
<td>27</td>
</tr>
<tr>
<td>Important</td>
<td>15</td>
<td>27</td>
</tr>
<tr>
<td>Very Important</td>
<td>9</td>
<td>17</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>55</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>
4.5.5 Importance of Quality to the business

Table 4.9 shows the respondent’s feedback on their perception of the importance of quality to the business. From the table, the study confirms that 20% of respondents stated that it was very important, 27% indicated that quality was important while 35% were uncertain about quality in a business. 13% of the respondent showed that quality in a business was unimportant while 5% showed that product quality was strongly unimportant.

Table 4.9: Product Quality

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Unimportant</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Unimportant</td>
<td>7</td>
<td>13</td>
</tr>
<tr>
<td>Uncertain</td>
<td>19</td>
<td>35</td>
</tr>
<tr>
<td>Important</td>
<td>15</td>
<td>27</td>
</tr>
<tr>
<td>Very Important</td>
<td>11</td>
<td>20</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>55</td>
<td>100</td>
</tr>
</tbody>
</table>

4.5.6 Perception of Innovation to your business

Table 4.10 shows the respondent’s feedback on their perception of the importance of innovation. From the table, the study confirms that 18% of respondents stated that it was very important, 35% indicated that innovation was important while 27% were uncertain about innovation. 15% of the respondent showed that innovation on the business was unimportant while 5% showed that innovation was strongly unimportant to there business.

Table 4.10: Innovation perception

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Unimportant</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Unimportant</td>
<td>8</td>
<td>15</td>
</tr>
<tr>
<td>Uncertain</td>
<td>15</td>
<td>27</td>
</tr>
<tr>
<td>Important</td>
<td>19</td>
<td>35</td>
</tr>
<tr>
<td>Very Important</td>
<td>10</td>
<td>18</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>55</td>
<td>100</td>
</tr>
</tbody>
</table>
4.6 Descriptive Statistics

Table 4.11: Descriptive Statistics

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>HumCap</td>
<td>3.3727</td>
<td>.93278</td>
<td>55</td>
</tr>
<tr>
<td>OrgCap</td>
<td>3.3091</td>
<td>.94685</td>
<td>55</td>
</tr>
<tr>
<td>Discovery</td>
<td>3.4020</td>
<td>.96118</td>
<td>55</td>
</tr>
<tr>
<td>Exploit</td>
<td>3.4519</td>
<td>.94871</td>
<td>55</td>
</tr>
<tr>
<td>Innov</td>
<td>3.4836</td>
<td>1.02682</td>
<td>55</td>
</tr>
</tbody>
</table>

The mean is defined as the measure of central tendency, used to obtain the average of the statistical data. The standard deviation on the other hand is a measure of dispersion which i.e. it measures how concentrated the data are around the mean; the more concentrated, the smaller the standard deviation, and the less concentrated they are the more the standard deviation. According to outcome above, the standard deviation values of the different variables do not deviate very far from the mean values,.93 to 1.02 for the respective variables; that shows that the outcome in the sample data of 55 participants (N) the variables human capital, org capital, Discover and Exploit are not greatly dispersed from the results generated.
### 4.7 Correlations

<table>
<thead>
<tr>
<th></th>
<th>Correlations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HUMANCAPITAL</td>
</tr>
<tr>
<td>HUMANCAPITAL</td>
<td>Pearson Correlation</td>
</tr>
<tr>
<td>OrgCapital</td>
<td>-0.025</td>
</tr>
<tr>
<td>Discovery</td>
<td>0.391*</td>
</tr>
<tr>
<td>Exploitation</td>
<td>0.217</td>
</tr>
<tr>
<td>Innovation</td>
<td>0.309</td>
</tr>
</tbody>
</table>

* Correlation is significant at the 0.05 level (2-tailed).
** Correlation is significant at the 0.01 level (2-tailed).

The Pearson correlation coefficient is used to measure the linear dependence between two random variables that do not depend on units of measurement and are bounded between negative -1.0 and positive +1.0 (Wooldridge, 2012). The correlation is a symmetric table of all possible correlation coefficients between a set of variables. A positive correlation coefficient between two variables will imply that the linear relationship is positive, i.e. slopes upward, while on the other hand a negative correlation coefficient between two variables implies that the linear relationship is negative, i.e. slopes downward (Wooldridge, 2012).

At the 0.05 level of significance, if \( p \leq 0.05 \), the Pearson correlation test is statistically significant. If \( p > 0.05 \), the Pearson correlation test is not statistically significant. Therefore, based on the results above, and using the 0.05 level of significance, there is a
statistically significant negative relationship between human capital and organizational capital= -.025. The relationship between human capital and Discovery is positive, but is not statistically significant; p = 0.391. The relationship between exploit and the Human capital is positive, but is not statistically significant; p = 0.217. There is a statistically significant positive relationship between Innovation and the respondent Human capital; p = 0.309.

The relationship between the respondent organizational capital and discovery is positive but is not statistically significant p = 0.218. There is a statistically significant positive relationship between exploit and the respondent organizational capital; p = 0.138. The relationship between Innovation and the respondent organizational capital has a statistically significant positive relationship; p = 0.195.

The relationship between exploitation and discovery have a positive statistical significant with p = 0.532 while the relationship between innovation and discovery had also a positive statistical significant were p = .432
The relationship between exploit and the innovation have a positive statistical significant with a p value of = 0.371

4.8 Model Summary
Table 4.12: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.501a</td>
<td>.251</td>
<td>.165</td>
<td>.59279</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Exploitation, OrgCapital, HUMANCAPITAL, Discovery

The R-squared of the regression which is sometimes called the coefficient of determination, is defined as: \( R^2 = \frac{SSE}{SST} = 1 - \frac{SSR}{SST} \)

R-squared is the ratio of the explained variation (SSE) compared to the total variation of (SST); thus interpreted as the fraction of the sample variation in y that is explained by x. Secondly equality in the second equation (i) provides another way for computing R-squared. The value of R-squared is always in between 0.0 and 1.0, because SSE cannot be greater than SST.
(Wooldridge, 2012). Intuitively, the $R^2$ measures the proportion of the total variation of $y$ that can be explained by $x$ (Koop, 2005).

From the table above, $R^2= 0.251$ which is also the correlation between the observed and predicted values of the dependent variable. The adjusted $R^2$ is also the degree of freedom, The adjusted $R$ squared may decline when a variable is added to the set of independent variables (Greene, 2012).

The standard error of the estimate is the standard deviation of the sampling distribution of the statistic (Greene, 2012). In this case, it is 0.59279.

**ANOVA**

**Table 4.13: Anova**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>$F$</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>4.117</td>
<td>4</td>
<td>1.029</td>
<td>2.929</td>
<td>.034*</td>
</tr>
<tr>
<td>Residual</td>
<td>12.299</td>
<td>50</td>
<td>.351</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>16.416</td>
<td>54</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Innovation
b. Predictors: (Constant), Exploitation, OrgCapital, HUMANCAPITAL, Discovery

The ANOVA test which is known as the analysis of variance test, is a study of the decomposition of the total sum of squares (TSS) into two components which are explained as sum of squares (ESS) and residual sum of squares (RSS) from the regression viewpoint; TSS = ESS + RSS (Gujarati, 2008).

The regression sum of squares measures the sample variation of the differences between the averages for each level of variables. The residual sum of squares measures the sample variation of the variance within each level (Wooldridge, 2012).

The regression mean square is calculated by dividing the regression sum of squares by the respective degrees of freedom, denoted by “df”, from the analyses the degree of freedom was 4 which means 12.964 means square as indicated by the table above.

Assuming that $\alpha$ is 0.05, if the $p$-value, denoted by “Sig.”, is less than or equal to $\alpha$, i.e. if $p \leq 0.05$, we reject $H_0$ or the null hypothesis. Alternatively, if the $F$- value is greater than the $F$-tabulated value, we accept the null hypothesis ($H_0$).
The p-value in this case is 0.036. And since it’s less than 0.05, we can reject the null hypothesis, and conclude that the means of the variables are significantly different for this research.

4.9 Coefficients of Linear Regression Model

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>1.307</td>
<td>.973</td>
<td></td>
<td>1.343</td>
</tr>
<tr>
<td>HUMANCAPITAL</td>
<td>.174</td>
<td>.156</td>
<td>.179</td>
<td>1.118</td>
</tr>
<tr>
<td>Discovery</td>
<td>.219</td>
<td>.176</td>
<td>.234</td>
<td>1.250</td>
</tr>
<tr>
<td>Exploitation</td>
<td>.156</td>
<td>.141</td>
<td>.191</td>
<td>1.103</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Innovation

Using the table above, we can develop the linear regression model:

\[ y = \beta_o + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon \]

Where \( y \) is the dependent variable, \( \beta_o \) is the intercept, \( \beta_1, \beta_2, \text{ and } \beta_3 \) are the parameters linked with their respective independent variables, and \( \epsilon \) is the collective error term. When the model is substituted with the values provided in the above table, we are presented with the model:

\[ Innovation = 1307 + 0.174 \text{ Human cap} + 0.210 \text{ Org} + 0.219 \text{ Discover} + 0.156 \text{ Exploit} \]

This means that for every unit increase in human capital, a 0.174 unit increase in innovation is predicted, holding all other variables constant. In the same way, for every unit increase in Organizational capital, a 0.210 unit increase in innovation is predicted, holding all other variables constant. Likewise, for every unit increase in discover, a 0.219 unit increase in innovation is predicted, assuming all other variables are held constant and finally for every unit increase in exploit, a 0.156 unit increase in innovation is predicted, holding all other variables constant.
The standard error terms are the terms other than the independent variables that affect the dependent variable, “innovation” (Wooldridge, 2012).

The standardized beta coefficients are the coefficients that are obtained if one standardizes all of the variables in the regression, including both the dependent and independent variables, and ran the regression. By standardizing the variables before running the regression, all variables will be on the same scale, and one can make a comparison on the magnitude of the coefficients to see which one has more of an effect. Also, the larger betas are associated with the larger t-values and lower p-values they have.

The columns labeled t and Sig. in the table above are the t-statistics and their associated two-tailed p-values used in testing whether a given coefficient is significantly different from zero. Using alpha (α) = 0.05, the coefficient for Human capital (0.174) is not statistically significantly different from 0, because its p-value is 0.271, which is greater than 0.05. The coefficient for Org capital (0.210) is not significantly different from 0, because its p-value is 0.426, which is less than 0.05. The coefficient for discovery (0.219) is not statistically significantly different from 0, because its p-value is 0.220, which is greater than 0.05. The coefficient for Exploit(0.156) is not statistically significantly different from 0, because its p-value is 0.278, which is greater than 0.05. The intercept is not significantly different from 0 at the 0.05 alpha level, because its p value is 0.188. So none of the individual regression result where significant.

4.10 Chapter Summary

This chapter has provided the results and findings with respect to the data given out by the respondents from the businessmen in Kabete. The next chapter provides the summary, discussions, conclusions and recommendations.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides the summary of the findings from chapter four as well as discussion, conclusions and recommendations of the study. This chapter is arranged in a way that it starts with the chapter summary, and then followed by discussions, conclusion, and finally recommendations.

5.2 Summary

The objective of this study was to establish the factors that affect the adoption of innovative strategies on sme’s in Kenya. The specific objective of the study was to investigate the effect of Human Capital on Innovation, determining the effect of Organizational Capital on Innovation, the effect of Discovery on innovation and the effect of Exploit on innovation.

The study used a descriptive research design with the use of questionnaires to obtain the need information from the respondents. The population of the study was 64 businessmen from Nairobi county kabete constituency. Data was collected using a structured questionnaire and analyzed using the statistics package for social sciences (SPSS). The analyzed Data was arranged in percentages, frequencies, means and standard deviations. The simple regression was computed to determine the relationships between the independent and dependent variables.

On human capital the study found out that there was not statistical significance between human capital and innovation. This was due to the way training and academic studies are carried out in Kenya which doesn’t mold one into becoming and entrepreneur.

The study established that organizational capital though it had a positive relationship lacked a statistical significance. The result was not significant from the study in Kenya because small enterprises don’t tend to change their approach of doing business so in most case they apply the wait and see approach to their business.
On discovery the study found out the relationship was not statistically significant due to the approach we used in searching for a business ideas, majority of entrepreneur’s in the sme’s just copy businesses that they think is successful or what they have heard is working well rather than following the due process of getting an idea.

On exploitation of business idea the study found out that there was not statistical significance between exploit and innovation. This was due to the way majority of the people were running there small business which they didn’t see the need to recruit, patent or map out there financial. There mode of running the business was based on survival

5.3 Discussions
5.3.1 Human Capital and Innovation

The relationship between human capital and innovation was positive at 0.174 but it was not statistically significant because its p-value was 0.271, which is > than 0.05. This study contradicts the work of Anis Omri & Maha Ayadi (2014) who carried a similar study in Tunisia and the study was significant indicating an influence in human capital to innovation. Another study was carried out in Japan by Mohamed Amine Bouraoui (2013) who results confirmed a significant relationship between human capital and innovation. On the other hand the findings from the work of Mahemba and De Bruijn (2003) and Baulom (2004) found a different outcome when their study confirmed that there was no significant relationship between training and innovation with training being a component of human capital. From their study they indicated that regardless of the number of training one attends they do not result in entrepreneurs becoming innovative.

Thornhill (2006) study went ahead and interviewed 845 Canadian innovative firms and demonstrated that there was a positive significant relationship between human capital and innovation. Similarly Koskinen and Vanharanta (2002) also determined that there was asignificant relationship between human capital and innovation through the knowledge, learning and experience gained in the enterprise.

This researcher hypothesizes that the reason the study failed to show significant in Kenya was due to the quality of education offered in the county which is more theoretical and less practical so even if someone has the highest number of training and academic qualification which were used to measure human capital he still has less opportunity to
practice what he has learnt to be innovative. Also the majority of people going for this training in Kenya maybe more interested in getting the certificate as opposed to the lesson. The researcher also hypothesized that the study failed to show any significant due to majority of SMEs in Kenya not having employees who contributes towards the human capital of the business as compared to other parts of the world were SMEs have over 10 employees.

5.3.2 Organizational capital and Innovation

The relationship between organizational capital and innovation was positive at 0.210 which means for every unit increase in organizational capital a 0.210 unit increase in innovation is predicted. However the relationship was not statistically significant because its p-value was 0.426, which is greater than 0.05. This stands in contrast to a study carried out in Spain by Inaki Pena (2006) that indicated a strong relationship between organizational capital and innovation. The study tasted the level of adoption to the market and the firm age which in Spain proved significant to innovation.

According to a Birley and Westhead (2000) study the firm age contributes significantly to the level of innovation. This is due to the number of learning and transformational process for a long time which is expected to results in ability to make innovative changes at ease. In Kenya majority of the sme’s are below 5 years which hindered them from having such immense experience in running business?

This researcher hypothesizes that the result was not significant from the study in Kenya because small enterprises don’t tend to change their approach of doing business so in most case they apply the wait and see approach to their business. It’s here in the country where we see hawkers being chased daily but they still go back to the city showing a lack of adoption to new regulations, others still would rather lower their prices than make innovative moves.

The researcher also hypothesized that the result was not significant because of lack of resources needed by the organization like research and development department that enable the big cooperates to adjust because of the forecast. This was confirmed by the work of Schumpeter (2001) who emphasized that the ability of large firms to invest in programs that leads to new products through R&D which clearly note possible for small
and micro-enterprises which are handicapped due to their lack of capital. Firtsch and Meschede (2001) also added that the availability of financial capital is the main factor in small enterprises innovation activities.

5.3.3 Discover and Innovate

The relationship between organizational capital and innovation was positive at 0.219 which means for every unit increase in organizational capital a 0.219 unit increase in innovation is predicted. However the relationship was not statistically significant because its p-value was 0.220, which is greater than 0.05.

A similar study carried out by Steven Farmer (2009) in Taiwan, China and USA showed a significant strong relationship between the discovery processes of an idea with innovation, this is so because in these countries they prefer to follow the due process of searching for the idea and the feedback they get is an honest opinion. Another study carried out by Cefis and Marsili (2006) found a significant positive relationship between discovery of a business idea with innovation but also highlighted that they were very few theoretical and empirical studies that have been done before that can support this relationship.

This researcher hypothesizes that the approach in which people search for an idea, majority entrepreneurs in the sme’s just copy businesses that they think is successful or what they have heard is doing well rather than following the due process of getting an idea. Also researcher hypothesized that the Kenya culture especially those in the urban centers were the research was conducted have the tendency of following the crowd and doing something because is fashionable, so if the media highlights that farming is good everyone will be doing farming the next day which affected the outcome of how people get a business idea.

5.3.4 Exploit and Innovate

The relationship between Exploit and innovation was positive at 0.156 which means for every unit increase in exploit a 0.156 unit increase in innovation is predicted. However the relationship was not statistically significant because its p-value was 0.278, which is greater than 0.05.
This was not the case in a similar study conducted in USA were there was a higher significant due to the way they handle the business, were proper structure needs to be put in place before they even start the business. Similarly another study carried out in Germany by McGrath & Macmillan (1992) found a significant relationship though he also noted that there was lack of consistency in which entrepreneurs view their roles across cultures and hence additional work was needed.

The result was not statistically significant because majority of the people who responded to the survey were running small business and they don’t see the need to recruit, patent or map out there financial. On the other hand the culture in Kenya effected the way small business traders do their business this is due to the way they are locked out from various opportunities that can help them innovate like access to finances, training and exposes to technologies that can assist them innovate there business.

5.4 Conclusion

5.4.1 Human Capital

The study concludes that there was no significant relationship between human capital and innovation, although these results were proved otherwise when another study was carried out in other parts of the country like Tunisia and Japan. The study also concluded that there other parts of the country apart from Kenya were the study showed a lack of significant especially between training and innovation hence the conclusion that the study may vary in result from different parts of the world. The study also conclude that the likelihood of the lack of significant in Kenya was due to the quality of training and education that entrepreneur receive which in most cases is not appropriate to the work environment out there.

5.4.2 Organizational Capital

On organizational capital the study concludes that there was no significant relationship between the two variables indicating that in Kenya organizational capital does not ideally influence innovation. This study was significant in Spain but proved otherwise Kenya. The study concluded that it was not significant in Kenya due to fewer resources that SMEs have to embrace innovative strategies also the way SMEs run business were its more of survival rather than innovate were prices and threats act as a way of managing completion.
5.4.3 Discovery

The study concludes that there was no significant relationship between discovery of a business idea and innovation, although these results were proved otherwise when the study was carried out in Taiwan, China and USA it was not so in Kenya. The study also concluded that there was a need to do more research on discovery as very few theoretical and empirical studies have been done before that supports this relationship. The study concluded the failure as a result of the way Kenyan search for a business idea which majority copy what they think is doing well or what they think is fashionable. Also the trust level in Kenya is very low hence we don’t trust our friends with our business ideas which they were meant to give us feedback.

5.4.4 Exploit

On the exploit of the business idea the study concludes that there was no significant relationship between exploit and innovation. On the other hand a similar study was done in USA and the results were significant. The study concludes that the study was not significant in Kenya likely because of our culture of doing business were small traders are locked out of many opportunities as compared to the rest of the world.

5.5 Recommendations

5.5.1 Recommendations for improvement

5.5.1.1 Human Capital

The study recommends that future studies in Kenya on human capital and innovation should include other factors such as one’s environment, family background. This could possibly show an inclination towards innovation. The study also recommends the quality of education and training offered should be more practical and relevant to the market it going to be exercised. The study also recommends entrepreneur to be open to training because they add value to the way they run their business which eventually builds up to innovation. The study also recommends a diverse experience for running of business rather than the one we have people doing the same role for 10years.

5.5.1.2 Organizational Capital

The study recommends that future studies in Kenya on organizational capital and innovation should include small enterprises resources rather than generalizing the resources for big organization with small ones like departments that are not there in small
enterprises. The study recommends organizations to be open to innovative ideas to withstand the market dynamics instead of using price wars and threats.

5.5.1.3 Discover

The study recommends a wider scope of studies on discovery as Kenyan way of sourcing for a business idea varies with other parts of the world. Although this study was significant in other parts of the world like USA, Taiwan and China the study recommends that more business incubation be set up in parts of the countries were ideas can be tested to see if the fit for the market. The study also recommends the government to be open to more entrepreneurship training that will help especially the SMEs who may lack the resources to attend these trainings.

5.5.1.4 Exploit

The study recommends the inclusion of other factors when exploiting a business idea such as government policies, culture and behavior of Kenyans which is unique from other parts of the world. The study also recommend the government to open financial support to the SMEs, and also other resources that may be of help towards there road to innovation.

5.5.2 Recommendation for further research

The study highly recommends further studies on the factors that influence the innovation adoption in Kenya since this has not been research deeply in Kenya hence there is lack of understanding on what innovation is all about when it comes to business. Majority of entrepreneurs just start the business for survival and not for innovativeness.
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APPENDICES

APPENDIX I: INTRODUCTORY LETTER

Dear Sir/Madam,

RE: REQUEST TO PARTICIPATE IN A RESEARCH STUDY

This study is a requirement for the partial fulfilment for the degree of Masters in Business Administration (MBA). The purpose of this research is to investigate the Factors Influencing the adoption of innovative strategies on SMEs in Kenya, A case study of Kabete town Kiambu County.

Kindly note that any information you give will be treated with confidentiality and at no instance will it be used for any other purpose other than for this project. Your assistance will be highly appreciated.

I look forward to your prompt response.

Regards

Eric C Kimani
SECTION A: PERSONAL PROFILE

1. Name of your Business: ........................................................................................................

2. Nature of the enterprise (Tick where suitable)
   (a) Partnership
   (b) Sole proprietor
   (c) Family owned

Others (specify): ........................................................................................................

3. Nature/Kind of enterprise (Tick where suitable)
   (a) Service
   (b) Education
   (c) Construction
   (d) Trading
   (e) Agro-allied

Others specify --------------------------

4. For how long has your enterprise been in operation? (Tick where suitable)
   (a) Less than 6 months
   (b) 6 months - 1 year
   (c) 2 - 5 years
   (d) 6 years and above
SECTION B: EFFECT OF HUMAN CAPITAL ON INNOVATIVE STRATEGIES ADOPTION

5) Please cycle your highest level of education?

1) Non

2) Primary school

3) Secondary School

4) College

5) University

6) Did you receive Entrepreneurial training before?

(a) Never (b) Rarely (c) Sometimes (d) Often (e) Very Often

7) Do you have any managerial experience?

(a) Not At All (b) Seldom (c) Partial experience (d) Experienced (e) Very Experienced

8) Do you have any experience in entrepreneurship?

(a) Not At All (b) Seldom (c) Partial experience (d) Experienced (e) Very Experienced

SECTION C: EFFECT OF ORGANIZATIONAL CAPITAL ON INNOVATIVE STRATEGIES ADOPTION.

9) Have you made any changes in the product or services, Pricing, marketing and source of Financing during your initial stage of the business?

(a) Strongly Disagree (b) Disagree (c) Not sure (d) Agree (e) Strongly Agree

10) What do you perceive is the growth potential of your business? Circle appropriately on a scale of 1-4.

(1) No potential

(2) Potential

(3) High potential

(4) Very High Potential
11) How many months or year has the business been in existence?
   (a) Less than 6 months
   (b) 6 months - 1 year
   © 2 - 5 years
   (d) 6 years and above

12) How many founding partners were there at the starting stage of the business?

13) Is low pricing strategy important to you? Circle appropriately on a scale of 1-5.
   (1) Strongly unimportant (2) Unimportant (3) Uncertain (4) Important (5) Very Important

14) Is product Quality important to you? Circle appropriately on a scale of 1-5.
   (1) Strongly unimportant (2) Unimportant (3) Uncertain (4) Important (5) Very Important

15) Do you perceive innovation to be an important part of your business? Circle appropriately on a scale of 1-5.
   (1) Strongly unimportant (2) Unimportant (3) Uncertain (4) Important (5) Very Important
SECTION D: EFFECT OF DISCOVERY ON INNOVATIVE STRATEGIES ADOPTION

(Cycle appropriately if you engaged or are engaging the following during your startup stage of your business)

<table>
<thead>
<tr>
<th></th>
<th>Not At all</th>
<th>Seldom</th>
<th>Occasionally</th>
<th>Almost</th>
<th>Always</th>
</tr>
</thead>
<tbody>
<tr>
<td>16). I engaged in a deliberate, systematic search for an idea for a new business.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
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<tr>
<td>17). I thought about a business idea or a number of business ideas that can potentially grow into a real business.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>18). I discussed ideas for a new business with my friends and family</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>19). I talked about a new business with people that I have a business or working relationship with.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>20). I had discussions with people other than those mentioned above with regard to a new business.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
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<tr>
<td>21). I had taken some classes or seminars on how to start a new business.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
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<tr>
<td>22). I had defined products or services for the business.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
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<tr>
<td>23). I had tried to define the market opportunity for the business.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>24). I had devoted significant time to this business idea.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>
SECTION E: EFFECT OF EXPLOITATION ON INNOVATION STRATEGIES ADOPTION

(Cycle appropriately if you engaged or are engaging the following during your startup stage of your business)

<table>
<thead>
<tr>
<th></th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Not sure</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>25. I have studied and mapped out the financials for the business.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>26. I have invested my own money in the venture.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>27. I have asked financial institutions for funds for the business.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>28. I have purchased, rented, or leased equipment for production.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>29. I have recruited one or more people to work with me on the business.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>30. I have applied for a patent, copyright, or trademark related to the business.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>31. I have made special arrangements (e.g., childcare, household help) to allow time for the business.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>
SECTION F: EFFECT OF INNOVATION ON INNOVATION STRATEGIES ADOPTION

(Cycle appropriately if you engaged or are engaging the following during your startup stage of your business)

<table>
<thead>
<tr>
<th>Question</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Not sure</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>32). Have you introduced a new product or a new quality of an existing product?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>33). Have you introduced a new method of production or modified an existing method.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>34). Have you found a new market or adopted a new marketing strategy for an existing market?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>35). Have you found a new supply source for your business?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>36). Have you developed new structures, systems, or procedures for your business?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
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