

ORGANIZATIONAL INNOVATIVENESS AND FIRM PERFORMANCE OF SMALL AND MEDIUM CAR BURSARS (SMES) IN KENYA: A CASE STUDY OF EUREKA MOTORS

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Abstract

The role of small and medium enterprises (SMEs) in economic development and employment creation has occupied most of the discussions among government, policy makers, academicians, researchers, scholars and economists globally. This study investigated the effect of innovative processes that Kenyan SMEs employ on their firm performance. The study's objectives were to find out how product innovation affects performance of medium enterprises in Kenya, to assess the extent to which process innovation affect performance of medium enterprises in Kenya and to investigate how market innovation affect performance of medium enterprises in Kenya. Findings from the study are expected to aid the government in formulating good policies to assist the SME sector, assist practicing entrepreneurs to perfect their business operations and enable academicians and researchers to find new knowledge to rely on while conducting further research on the SME sector. The study adopted cross sectional design which seek to establish the relationship between innovative processes and firm performance over the five years' period (2013 to 2018), and collected primary data using self-administered questionnaires. From the findings, the study realised that the firm is a sole proprietorship formed over ten years ago and that its Profits have not been stable. It has not been using product nor process innovations due to their costs and technical expertise involve and hence these have had no effect on the firm's performance. However, market innovation which is the only organizational innovativeness used by the firm had positively enhanced the firm's performance according to the study. The study therefore concluded that the firm has not been doing well due to its inability to implementing all the three innovative processes. Among the study recommendations is that the firm need to start doing product innovations; and subcontract for parts not implementable immediately as their effects are very beneficial to firm performance; and should do away with process innovation as it is risky and very expensive to the firm.

Key Terms: Firm performance, Innovative processes, Small and Medium Enterprises (SMES)

Background of the study

In recent years, the role of small and medium enterprises (SMEs) in economic development and employment creation has occupied most of the discussions among government, policy makers, academicians, researchers, scholars and economists globally. SMEs have the ability to fuel economic growth because they create new jobs, expand the tax base, and are drivers of innovations. According to Beck (2005), SMEs enhance competition and entrepreneurship hence have external benefits on economy wide efficiency, innovation and aggregate productivity.

Contributions of SMEs in Kenya are not very different from the world scenario. Researchers and scholars estimate the sector to offer about 85% of employment in the manufacturing sector in Kenya and contribute about 70% to Kenya's GDP and 92% of businesses in Kenya (GOK, 2004; Waweru, 2010).

Relationship between innovative processes and SME performance

Small and medium enterprises are the primary vehicles by which new entrepreneurs provide the economy with a continuous supply of ideas, skills, and innovations (CACCI, 2003). Thus, successful implementation of innovative processes is crucial for a business to be able to increase efficiency on its processes, bring in new products, improve on its profitability and hence competitiveness. In order to improve SME's competitiveness, the government of Kenya has been spending a lot of money to enable its small enterprises to adopt organizational innovativeness through various means (Moya & Njiraini, 2005).

Eureka Motors

The business under study (Eureka Motors) has had myriads of general business problems. For the last five years, it has been running at losses. At times, it lacked enough cars to sell, some cars have been sold at less price than their cost prices and the business had to close down on two occasions in the month of January 2015 and March 2017. It is against this backdrop that this study seeks to investigate if there is a relationship between organizational innovativeness and firm performance of Eureka Motors enterprise

Statement of the problem

According to the government of Kenya (GOK, 2005), "the First 1993 Small & Medium Enterprises (SME) baseline survey in Kenya revealed that there were approximately 910,000 SMEs employing up to 2 million people while the second SME baseline survey (1995), estimated the size of the SME sector at 708,000 enterprises employing up to 1.2 million people". Compared to the other sectors of the economy, the SME sector contribution to the country's Gross Domestic Product (GDP) increased from 13.8% in 1993 to over 18% in 1999, (GOK, 2005). Currently, it is estimated that this sector's contribution to the Kenyan GDP stands at over 25% (GOK, 2012).

These statistics notwithstanding, the SME sector in Kenya usually operates un competitively. They are normally home based and are not able to expand beyond the country borders (World Bank, 2006). This means that they remain poor, with majority not able survive beyond two years after start up (Kihonge, 2014). This study therefore sought to establish factors affecting performance of SMEs in Kenya.

Aim of the Study

The main aim of the study was to find out the effect of organizational innovative processes on performance of Eureka Motors in Kenya.

Study objectives

Specific objectives of the study were as follows:

- i. To find out how product innovation affect performance of medium enterprises in Kenya
- ii. To assess extent to which process innovation affect performance of medium enterprises in Kenya
- iii. To investigate how market innovation affect performance of medium enterprises in Kenya

Research Questions

The study sought answers to the following questions

- i. How does product innovation affect performance medium enterprises in Kenya?
- ii. To what extent does process innovation affect performance of medium enterprises in Kenya?
- iii. In what ways does market innovation affect performance of medium enterprises in Kenya?

Rationale of the study

Findings from this study will enable the government to formulate good policies to assist the SME sector. The study findings will also be used by practicing entrepreneurs to perfect their business operations. Finally, academicians and researchers will find new knowledge to rely on while conducting further research on the SME sector

Theoretical Framework and Informing Literature Review

This chapter presents theoretical framework and a review of related literature on the effect of organizational innovative processes and performance of SMEs in Kenya.

Theoretical Framework

This study is based on opportunity-based theory which was put forward by the prolific business management author Peter Drucker in the years (1909-2005). According to Peter Drucker, entrepreneurship involves; increases the value or satisfaction to the customer from the resource, creation of new values and combination of existing materials or resources in a new productive combination. This implies that entrepreneurs excel at seeing and taking advantage of possibilities created by social, technological and cultural changes - which come through innovative processes (Timmons and Spinelli, 2003, Lacka, 2017).

Innovation has been defined as improving business processes to increase efficiency and productivity, developing new or improved products, as well as adding value to existing products, services or markets to differentiate them from competitors (Lord Y., 2013; Guday, et al., 2011; & Lin et al., 2008;). Thus, implementing processes help organizations to improve productivity, reduce costs, increase turnover with improvements in profitability and hence competitiveness. However, for any innovation to be considered successful it must have a positive impact on the performance of a firm (Guday et al., 2011 & Kiraka, et al. 2013).

Lord (2013) identifies three types of innovative processes as product innovation, process innovation and Market innovation. According to Lord (2013), a product innovation is the introduction of a good or service that is new or has significantly improved characteristics or intended uses while a process innovation refers to the implementation of a new or significantly improved production or delivery method. Market innovation on the other hand is the implementation of a new marketing method involving significant changes in product design or packaging, product placement, product promotion or pricing (Guday, et al., 2011)

Empirical literature

Small and medium-size enterprises (SMEs) have been globally recognized as engines of economic growth of many nations. Recklies (2001) observed that SMEs are efficient and productive job creators, seeds of big businesses and fuel of national economic development. In a global context, SMEs are usually regarded as agents for innovation; economic growth, employment generation, and wealth creation. The SMEs in Hungary for instance contribute about 50% of Gross Domestic Product (GDP) and 18% of the country's export (OECD, 2006). In most African countries, the SME sector also represents over 90% of private business and offer more than 50% of employment and of GDP (UNIDO, 2002).

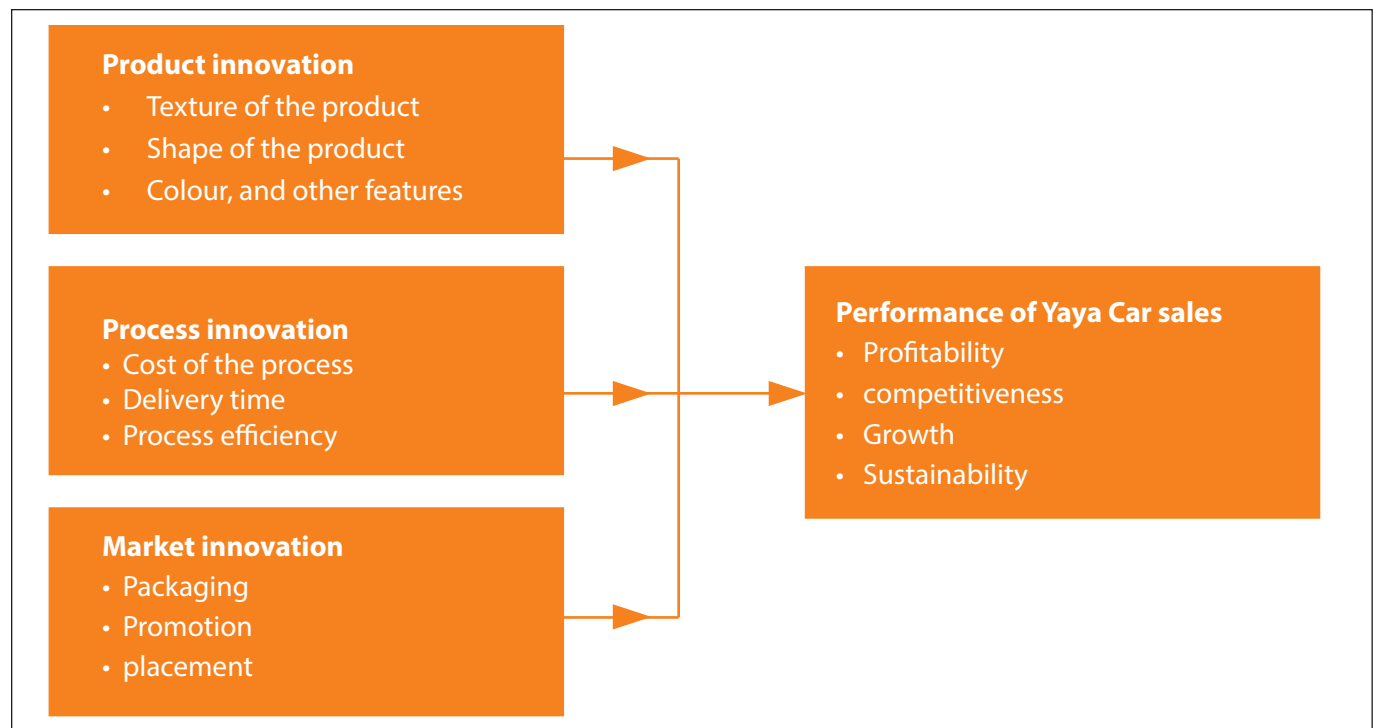
Conceptual framework

The project conceptualises that the study will be based on four variables. Three variables (product innovation, process innovation and market innovation) will form independent variables while performance of Eureka Motors will form dependent variable. It is hypothesised that independent variables are closely related to dependent variable and consequently do affect dependent variables. Figure 2.1 represents this relationship

Product innovation

- Texture of the product
- Shape of the product
- Colour, and other features

Figure 2.1: Figure showing conceptual framework



Research Methodology

This study involved cross sectional design which seek to establish the relationship between innovative processes and firm performance over the five years' period (2013 to 2018). It used a positivist approach which is the most suitable since it is used to explain relationships as well as explain, predict and control phenomena (Leedy and Omrod, 2005).

The study used descriptive research design to collect and analyse data. According to Kothari (2004) descriptive research design is the most appropriate since it ensures that the data obtained gives appropriate answers to the research questions.

The study was done on one enterprise (Eureka Motors). Both primary and secondary data were collected to accomplish the study objectives. Secondary data was collected through desk research (literature review) while primary data was collected by use of interview guide administered on two focus group discussions (one made of the owner manager and two employees and the other made of 7 customers).

Data was analysed manually using the researcher's insight and research skills to bring out the main themes. The emerging themes were then operationalized for content analysis and to make meanings and importance of the study. The basis of thematic approach emphasizes the clustering and presentation of material information found across all responses.

Summary of the Findings and Discussions

From the study, it came out clearly that the firm is a sole proprietorship formed over 10 years ago. It is owned by a Kenyan male adult, with a degree, of over 10 years' experience in government departments and with 3 children. It gets

information on innovative processes from various sources which includes the internet, the print media, libraries as well as when employees visit other firms for bench marking, when they attend to international shows and exhibitions and when they are visited by business advisers. Other sources of information on innovative processes is received from customer complaints, suggestions and feed back.

On implementation of innovative processes, the study found out that product innovation has not been implemented as it requires a lot of money, Process innovation has not been implemented as it requires experienced personnel who are lacking in the firm and Market innovation is only being partly implemented. Finally, the study was informed that organizational profits have not been stable; sometimes the firm is forced to close down due to shortage of cars or lack of funds and at times cars are sold cheaply.

Discussions according to research questions

Product innovation consists of those processes related to sourcing for unique cars in high demand in Kenyan market, fixing them with parts which attract more customers like fog lights, spoiler, radio alarms, aerials and sun carriers as well as sports tires, and repairing where the cars have dents before selling. This has not been implemented as it requires huge amounts of money.

Process innovation entails importing vehicles directly from foreign markets instead of going through brokers, shortening the port clearing processes, and selling directly to customers instead of going through brokers among others. This again has not been implemented by the SME as it requires experienced personnel who are very expensive to maintain by the firm.

Market innovation consists of using social media to sell the cars, taking cars to the market bursars, selling cars online (opening a web), as well as using social networks to solicit for buyers. This is being partly implemented by Eureka motors.

Conclusions And Recommendations

Conclusions

The following conclusions were deduced from the study findings; that the firm implements all the three innovative processes in different ways and their individual costs vary according to circumstances. Specifically,

Product innovation was found to be very risky especially for those with little experience and expensive to the firm. They include paying high costs for a consultant- to advice on which vehicles to import, how much and how much to sell the vehicles, and buying costly machines (welding, spraying and other mechanical machines). As this innovation process is not being implemented, it had no effect on firm performance. However, profits resulting from this innovation were expected to far outweigh the expenses and therefore the firm was seen to be losing a lot by not implementing the innovation.

Process innovation was seen to be very risky and at times not possible without involving agents/brokers. Their costs include contracting own staff buyers from the source, having own clearing and forwarding companies as well as having field officers to transport vehicles to the showroom and out of the show room. This process was not being implemented by the firm and therefore has no effect on firm performance. However on further discussions, it was revealed that this innovation is not cost effective and therefore not tenable.

Market innovation was not very expensive, and nor was it much involving. The resulting profits were however seen to be very lucrative. The costs on this process include advertising using various platforms, employing qualified sales force and training them, cost of running a web, networking to solicit for buyers as well as use of social media to sell cars. This innovation was found to be the most effective in terms of profitability and thus firm performance. It also correlates well with a study done by Lacka (2017), where innovative abilities of small businesses in Poland were found to determine their development as well as competitiveness. Likewise, Ackermann et al. (2015) concluded that capacity for organizational innovations was the single most important task in organizational survival.

Recommendations

From the findings, it is recommended that the enterprise need to start doing product innovations; and subcontract for parts not implementable immediately as their effects are very beneficial to firm performance. It should do away with

process innovation as it is risky and very expensive to the firm. Finally, the enterprise need to continue doing market innovations; and engage agents to assist in doing what is not implementable immediately as their effects are very beneficial to firm performance

Recommendation for future research

It is recommended that further studies be done on the “Effect of cultural differences on firm performance amongst SMES in Kenya”

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