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**Entrepreneurial Innovation Competence and Growth of Micro and Small Enterprise in  
Nairobi County**

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(PhD)

### Entrepreneurial Innovation Competence and Growth of Micro and Small Enterprise in Nairobi County

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#### Abstract

**Purpose:** The purpose of the study was to evaluate how entrepreneurial innovation competence influences the growth of micro and small enterprise in Nairobi County. Micro and Small Enterprises (MSEs) are important drivers of economic growth and development in Kenya. These enterprises create employment, facilitate wealth creation and form the backbone for private sector growth and expansion. The numerous challenges facing MSEs in Kenya are both internal and external to their operations. Many businesses are characterized by entrepreneurs' lack of proper entrepreneurial training, lack of marketing capacity and broad operational capacity, lack of business innovation, inadequate business training, lack of motivation for business and pro-activeness.

**Methodology:** The study adopted a descriptive survey design. There were 1,236,907 operating businesses categorized as MSEs in Nairobi County by the year 2020. To select the MSE in all the regions in Nairobi County, cluster sampling techniques was employed, first to identify the various MSEs and clusters relevant to this study. Seventeen clusters were identified according to where they are located. 384 respondents formed the study sample. The selection of the sample from each cluster of the study was through simple random sampling. The study used a questionnaire to collect primary data, which was then analyzed using Statistical Package for Social Sciences (SPSS version 23). Data analysis was done using descriptive statistics, Pearson correlation coefficient and regression analysis.

**Findings:** The findings showed that an increase in Innovation competence would result to increase in growth of micro and small enterprise in Nairobi County. The findings showed that a unit increase in Entrepreneurial Innovation competence would result to an increase of 0.622 units in growth of micro and small enterprise in Nairobi County. The univariate analysis fitted to test the relationship between innovation competence and growth of micro and small enterprises in Nairobi County show that entrepreneurial innovation competence explained 31.2% of the variation in growth of micro and small enterprises in Nairobi County other factors held constant.

**Unique Contribution to Theory, Practice and Policy:** The Theory that underpinned the study was entrepreneurial competency theory. This study recommended that micro and small enterprises should invest in technological innovation to enhance their growth. Investing in the latest software and hardware solutions can help increase productivity, streamline operations, and improve customer service. Additionally, investing in technology can help micro and small enterprises stay competitive in the global marketplace.

**Keywords:** *Entrepreneurial, Innovation, Competence, Growth of MSEs, Nairobi County*

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## INTRODUCTION

During the second half of the 20th century, the micro and small enterprise (MSE) played an increasingly important role in the implementation of technological innovations (Muturi, 2015). Globally, half of the world's workforce and over half the world's Gross Domestic Product (GDP) are contributed by MSEs.

According to Buckley & Casson, (2017) entrepreneurial management competency is an effective approach towards solving the problems of decreased productivity, labour cost and consequent rise in unit costs. Entrepreneurial management provides opportunities to achieve competitive advantage in an intermediate to long-term time frame.

The component of entrepreneurial management in this study is entrepreneurial innovation competence. Entrepreneurial innovation competence describes the characteristic of entrepreneurial actions to anticipate future opportunities, both in terms of products and in terms of markets and consumer demand (Ferreira, Coelho & Moutinho, 2020).

Entrepreneurial motivation competence refers to the management adopted ways of engaging with its employees or competitors. Entrepreneurial training competence refers to the impacted ideas or skills for independent action of an individual or a team in achieving the set goals (Christopher, 2015). On the other hand, entrepreneurial marketing competence relates to the types of marketing strategies for products or services a company has introduced to the market (Greiling, 2015). Entrepreneurial marketing leads to change in marketing strategies to maximize on untapped markets. Despite numerous methodologies having been proposed, MSEs in Kenya still fail to effectively adopt entrepreneurial management competencies and skills in order to enhance their business growth (Ndururi, Mukulu & Omwenga, 2019).

Globally all firms, including microenterprises, are established to achieve certain goals. Enterprise growth is therefore defined as a firm's ability to achieve planned goals as measured against its intended outputs and encompasses outcomes related to financial growth, market growth and shareholder return (Taouab & Issor, 2019). MSE growth may be measured using objective, subjective, or operational measures (Wach, Stephan & Gorgievski, 2016). Pilat and Wolf (2015) suggest the goal approach as a composite measure of Enterprise growth. The goal approach measures growth using financial (objective) and non-financial (subjective) measures. Financial indicators include profitability indicators such as return on asset (ROA), return on investment (ROI), return on equity (ROE), return on sales (ROS), market share, and operational efficiency. Non-financial measures include job satisfaction, organizational commitment, employee turnover and entrepreneur satisfaction (Khalaf, Hmoud & Obeidat, 2019).

Measuring the growth of microenterprises in developing countries in Africa is challenging because small firms often consider financial growth measures to be confidential, and guard them from public scrutiny (Greiling, 2015). Collecting growth information from privately owned MSEs is often difficult due to a lack of historical information and accessibility and even when it is obtained it is often imperfect (Siebert, 2013). Due to these challenges, researchers often evaluate business enterprise growth of MSEs using general subjective measures that can reflect more-specific objective measures (Sabana, 2014). Therefore, most research studies such as Christopher (2015) and Greiling (2015) have developed the use of a five-point Likert scale which measures sales growth and profitability growth as financial growth measures. A similar technique is used by Polit & Beck, (2014). This approach is implemented as it avoids the direct

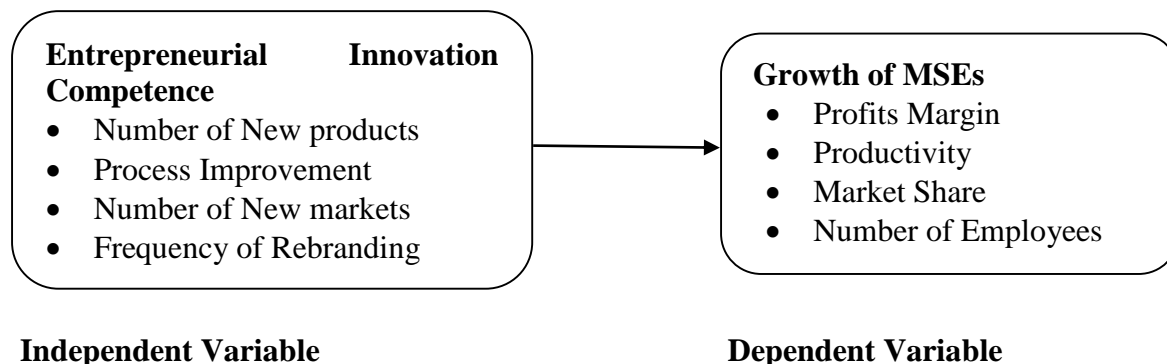
approach of asking for sales or profitability figures but infers the growth indirectly, through the responses on the level of satisfaction with sales and profitability growth of the firm.

Many scholars and policy makers agree on the important role of MSEs in economic growth. However, in Kenya MSEs face high mortality rate. KNBS, (2020) reported that 2.2 million businesses majority of them being MSEs have closed down. The reports further indicated that 75% of the MSEs do not live past their third birthday which imply that many enterprises collapse in their first three years of operation. Mukulu & Marima, (2017), in their study reported that MSEs have not been able to become competitive over the past 15 years and their contribution to the economy has stagnated at 17%. This poor growth of MSEs denies the government necessary revenue through lost taxes, results to loss of capital of the owners and also kills job opportunities amidst increasing joblessness among young people in Kenya. For Kenya to achieve the much anticipated economic prosperity, the challenges of growth of the MSEs must be addressed.

The mechanism of the business management is inter-linked and all crucial to dynamics of MSE business venture (Florida, Mellander & King, 2015). Big businesses rely on specialists' knowledge which small businesses, usually cannot afford. As a result, small business owners perform most of these functions. MSEs do not have all the necessary competencies to carry out the wide range of activities and the situation becomes worse in a globalized context, where most businesses have to internationalize their business operations and have to deal with intensified competition (Greiling, 2015). On the other hand, the internal factors that inhibit the growth of MSEs include inadequate managerial and technical skills to influence their innovative capacity, lack of proper entrepreneurial training, lack of motivation and poor marketing strategies. However, little has been done on influence of entrepreneurial management competencies on growth of micro and small enterprise in Nairobi County hence there is a conceptual gap the current study intends to address.

Elena, (2012) posits that performance is a subjective and multifaceted phenomenon. Quoting Bourguignon (1997) who defined performance as reflecting the accomplishment of organizational objectives which represents what contributes to optimizing the value-cost couple and not only what contributes to diminishing the cost or raising the value which on the long run keeps the competition at a distance through a strong motivation of all the members of the organization. Performance can also be defined as a state of competitiveness of the economic entity, reached through an efficiency and productivity level, which ensures its durability on the market (Elena, 2012).

### Conceptual Framework



### LITERATURE REVIEW

#### Theoretical Review

According to Bird, (2019) entrepreneurial competencies are primary characteristics such as basic and specific knowledge, motives, traits, self-image, roles and skills which are required for business start-up, survival and/or growth. Theory of Entrepreneurial Competence combines resources and opportunities, propelled by entrepreneurial intention, resulting in an entrepreneurial competence as a key source of value creation generated from formulation. Within the Theory of Entrepreneurial Intentionality, entrepreneurial intention and adaptability, via the feasibility modulator, adjusts and adapts entrepreneurial resources. The entrepreneur advances forward to the effectuation multiplier, which deploys entrepreneurial resources to reconfigure the entrepreneurial opportunity into an entrepreneurial competence, which then leads to monetization.

In business, entrepreneurs are required to deal with a lot of people including suppliers, customers, employees, government authorities, competitors and other stakeholders. Being in contact with a diverse set of individuals is important for entrepreneurs because it gives them access to information and other resources (Pepple & Enuoh, 2020). In doing so, entrepreneurs are required to have good relationship competency to enable them to advance in their business. This is in line with resource dependency theory which suggest that entrepreneurs use their social relations to get the resources they need to launch a business (Pepple & Enuoh, 2020). Evidence suggests that small firms are engaged in networks especially in gaining advice and support from professionals and experts such as lawyers, accountants and consultants, as well as government bodies, research and training institutes and even suppliers and customers (Rogan & Mors, 2017).

#### Empirical Review

According to the origins of the economics of innovation, Innovation is “the economic application of a new idea” (Coccia, 2018). Carayannis, Samara & Bakouros, (2015) also defines innovation as the “first commercial application or a new process or product, or successful exploitation of ideas”. The definition is more effective because it is not just the invention of a new idea that is important, but putting it into practice and exploiting it in a manner that leads to new products, service or systems that add value or improve quality. Ćirić, Lalić & Gračanin, (2016), citing Myres and Marquis (1969), gave a comprehensive definition of innovation. He claimed that innovation is not a single action but a total process of

interrelated sub processes. Innovation is not just the conception of a new idea or development of a new market only but all these processes acting in an integrated fashion. Apsalone, (2018) defines innovation as “the implementation of a new or significantly improved product, service or process, a new marketing method or a new organizational method in business practices or work place organization”.

Kanagal, (2015), posits that innovation can generally be divided into four sub components; a) Product innovation involving a new or modified product or service. b) Process innovation involving a new or modified way of making a product. c) Marketing innovation involving the implementation of a new marketing method with significant changes in product design or packaging or rebranding or product promotion and pricing. d) Organizational innovation involving the creation or altering of business practices, work place organization or external relations. Drucker & Maciariello, (2014) stated that innovation is an instrument or tool which is used by the entrepreneurs for exploiting change as a prospect. He argued that innovation can be perceived as a discipline that can be practiced as well as learned by organizations.

The successful exploitation of new ideas is crucial to a business being able to improve its processes, bring new and improved products and services to market, increase its efficiency and, most importantly, improve its profitability. Introducing innovation can help to; improve productivity, reduce costs, be more competitive, build the value of your brand, establish new partnerships and relationships, increase turnover and improve profitability. Businesses that fail to innovate run the risk of; losing market share to competitors, falling productivity and efficiency, losing key staff, experiencing steadily reducing margins and profit, going out of business.

Fundamentally, innovation means introducing something new into your business. This could be; a) improving or replacing business processes to increase efficiency and productivity, or to enable the business to extend the range or quality of existing products and/or services, b) developing entirely new and improved products and services - often to meet rapidly changing customer or consumer demands or needs or c) adding value to existing products, services or markets to differentiate the business from its competitors and increase the perceived value to the customers and markets (Drucker & Maciariello, 2014).

## **METHODOLOGY**

The study adopted a descriptive survey design. There were 1,236,907 operating businesses categorized as MSEs in Nairobi County by the year 2020 (KNBS, 2020). To select the MSE in all the regions in Nairobi County, cluster sampling techniques was employed, first to identify the various MSEs and clusters relevant to this study. Seventeen clusters were identified according to where they are located. 384 respondents formed the study sample. The selection of the sample from each cluster of the study was through simple random sampling. The study used a questionnaire to collect primary data, which was then analyzed using Statistical Package for Social Sciences (SPSS version 23). Data analysis was done using descriptive statistics, Pearson correlation coefficient and multiple regression analysis.

## **FINDINGS**

The results presented in Table 1 show that the study had a response rate of 77% (296 out of 384) which was considered to be high according to Shelley & Horner, (2021). Response rate is a key indicator of the quality of a study. It measures the proportion of individuals who respond to a survey or other research study, and it is an important measure of the reliability and validity

of the results. A low response rate can lead to a biased sample and inaccurate results, while a high response rate ensures that the sample is representative of the population and that the results are more likely to be accurate. Thus, response rate is an important measure of the quality of a study and should be taken into consideration when evaluating the results of a study.

**Table 1: Response Rate**

	<b>Frequency</b>	<b>Percent (%)</b>
Returned Questionnaires	296	77%
Unreturned Questionnaires	88	23%
<b>Total</b>	<b>384</b>	<b>100</b>

### **Descriptive Results for Entrepreneurial Innovation Competence**

This section presents the descriptive results for entrepreneurial innovation competence. Descriptive statistics include measures of central tendency such as the mean and standard deviation.

**Table 2: Descriptive Results for Entrepreneurial Innovation Competence**

Statements	SD	D	N	A	SA	Mean	Std Dev
Innovation and creativity must be in the mind of an entrepreneur all the time in order to create new products	3.8%	4.8%	3.5%	43.8%	44.1%	4.20	0.99
Product innovation is sometimes costly and the entrepreneur may have to go to a bank for a loan for his ideas to come to light	5.1%	3.8%	3.8%	43.5%	43.8%	4.17	1.03
Product innovation involves a new or modified product or service	5.1%	4.1%	2.2%	40.6%	47.9%	4.22	1.04
Process innovation involves a new or modified way of making a product	2.2%	3.5%	4.8%	46.7%	42.9%	4.24	0.87
Innovation creates processes to improve on production efficiency where ordinarily everything seemed well	5.7%	2.9%	3.2%	45.4%	42.9%	4.17	1.03
Technological transformation coupled with putting new idea into practice and exploiting it brings about significant changes in the enterprise	2.9%	3.8%	3.5%	43.5%	46.3%	4.27	0.92
Innovative ideas create new markets by considering the demands of demographics in certain areas	1.6%	4.1%	2.9%	44.4%	47.0%	4.31	0.84
Innovation of new markets involves the implementation of a new marketing method with significant changes in product design or packaging with promotion and new pricing	5.4%	5.4%	3.5%	42.9%	42.9%	4.12	1.07
New markets innovation help to improve sales, reduce costs, increase turnover and improve on profitability	3.5%	4.1%	3.2%	44.4%	44.8%	4.23	0.95
Exploitation of ideas and management restructuring are ways and means that entrepreneurs use to actualize new products, service and rebranding that add value and improve on quality	4.8%	3.2%	3.5%	43.2%	45.4%	4.21	1.00
Innovation is not a single action but a total process of inter related sub-processes acting in an integrated fashion that result in new and rebranded products	2.9%	3.2%	2.5%	41.6%	49.8%	4.32	0.90
Organizational innovation involving rebranding the enterprise with the most popular product for easy identification by loyal customers	4.8%	2.2%	2.9%	37.8%	52.4%	4.31	0.99
<b>Aggregate Mean score</b>						<b>4.23</b>	<b>0.97</b>

SD-Strongly Disagree, D- Disagree, N-Neutral, A-Agree and SA-Strongly Agree

The aggregate mean score of 4.23 indicate that majority of respondents agreed that innovation competence is significant in growth of micro and small enterprise in Nairobi County.

### Correlation Analysis

The results of correlation analysis presented in Table 3 show that entrepreneurial innovation competence and growth of micro and small enterprises in Nairobi County had a Pearson's correlation of  $r=0.561$  ( $p=0.004$ ) which was strong, positive and significant. The correlation



results implied that innovation competence had a strong, positive and significant association with growth of micro and small enterprises in Nairobi County. According to these findings enhancing entrepreneurial innovation competence would result to increase in growth of micro and small enterprises in Nairobi County.

Entrepreneurial innovation competence is essential for micro and small enterprises to remain competitive in the marketplace. It can help them create new products and services that are more attractive to customers, develop new business models and processes to optimize operations, and create new ways to market and sell their products. Entrepreneurial innovation competence can also help small businesses unlock new sources of value, such as finding new sources of capital or developing new partnerships. By having the right mix of innovation skills, micro and small enterprises can create competitive advantages that will enable them to grow and succeed.

The finding corroborated with those of Muturi, (2015) who found that innovation plays a key role in ensuring the desired growth in a business is achieved. Management creates a performing organization by developing and implementing knowledge management processes, providing training designed to enhance innovation and productivity and as much as possible, enhance decision support as well as administration and pecuniary affairs. Similarly, the study finding agreed with Florida, Mellander & King, (2015) that found that organizations are not only about increasing the growth of the company but they are also social entities that are composed of numerous individuals. Companies are responsible to their shareholders on their growth aspect, but they also have to consider other stakeholders when conducting business and thus should adopt innovative measures.

**Table 3: Pearson's Correlation Matrix**

		<b>Entrepreneurial Innovation Competence</b>
Entrepreneurial Innovation Competence	Pearson Correlation	1
	Sig. (2-tailed)	
	N	296
Growth of MSEs	Pearson Correlation	0.561**
	Sig. (2-tailed)	0
	N	296

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

### Regression Analysis Results

The results presented in Table 4 show the univariate analysis fitted to test the relationship between innovation competence and growth of micro and small enterprises in Nairobi County. The results show that entrepreneurial innovation competence explained 31.2% (R-square = 0.312) of the variation in growth of micro and small enterprises in Nairobi County. The results implied that 31.2% variations in growth of micro and small enterprises in Nairobi County could be explained by entrepreneurial innovation competence other factors held constant. The Results of ANOVA (f-statistics=142.103, p=0.000) show that univariate model fitted to test whether entrepreneurial innovation competence significance predicted growth of micro and small enterprises, found it was statistically significant. This further implies that the model had a goodness of fit.

The coefficient of entrepreneurial innovation competence was  $\beta=0.622$ , with p-value= 0.000. These findings implied that entrepreneurial innovation competence positively and significantly predicted growth of micro and small enterprises in Nairobi County. The finding further

confirmed that increasing entrepreneurial innovation competence would result to 0.622 units increase in growth of micro and small enterprises in Nairobi County. The finding corroborated with those of Muturi, (2015) who found that innovation plays a key role in ensuring the desired growth in a business is achieved. Management creates a performing organization by developing and implementing knowledge management processes, providing training designed to enhance innovation and productivity and as much as possible, enhance decision support as well as administration and pecuniary affairs. Similarly, the study finding agreed with Florida, Mellander & King, (2015) that found that organizations are not only about increasing the growth of the company but they are also social entities that are composed of numerous individuals. Companies are responsible to their shareholders on their growth aspect, but they also have to consider other stakeholders when conducting business and thus should adopt innovative measures.

**Table 4: Univariate Regression for Entrepreneurial Innovation Competence and Growth of MSEs**

		<b>B</b>	<b>Std. Error</b>	<b>Beta</b>	<b>t</b>	<b>Sig.</b>
<b>Coefficients</b>	(Constant)	0.68	0.223		3.047	0.003
	Entrepreneurial Innovation Competence	0.622	0.052	0.559	11.921	0.000
		<b>Sum of Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
<b>ANOVA</b>	Regression	49.164	1	49.164	142.103	.000b
	Residual	108.29	294	0.346		
	<b>Total</b>	<b>157.454</b>	<b>295</b>			
		<b>R</b>	<b>Adjusted R Square</b>	<b>Std. Error of the Estimate</b>		
<b>Model Summary</b>	<b>R</b>	0.312	0.31	0.5882		
		.559a				

a. Dependent Variable: Growth of MSEs

b. Predictors: (Constant), Entrepreneurial Innovation Competence Score

### Test of Hypothesis

The study relied on the results of univariate regression analysis presented in Table 4 to carry out hypothesis testing. The hypothesis was tested at the level of significance of 0.05, where the null hypotheses was rejected when the coefficient had a p-value of less than 0.05.

### **H<sub>A1</sub>: Entrepreneurial innovation competence influences the growth of micro and small enterprise in Nairobi County**

The first research hypothesis of the study was to test whether Entrepreneurial Innovation competence influences the growth of micro and small enterprise in Nairobi County. Regression results show that Entrepreneurial Innovation competence had a coefficient of  $\beta=0.622$ ,  $p=0.000$  which revealed a positive and significant relationship between Entrepreneurial Innovation competence and growth of micro and small enterprise in Nairobi County. The findings showed that a unit increase in Entrepreneurial Innovation competence would result to an increase of 0.622 units in growth of micro and small enterprise in Nairobi County. The study therefore, accepted alternate hypothesis that Entrepreneurial Innovation competence positively influences the growth of micro and small enterprise in Nairobi County.

Ejimabo, (2015) also found that as one of the many ways in which an organization can make decisions, leaders must think of the best possible style that will allow the organization to achieve the best results while Gaubinger, et al (2015) refers to innovation management as an interdisciplinary field that focuses on information as a resource, with greater emphasis on the acquisition and management of external information and to some extent the management of new markets according to the demand. Innovation management mainly deals with managing documented and explicit knowledge (that is, information), which can be easily transferred or shared within or outside the organization.

**Table 5: Summary of Hypothesis Testing**

Hypothesis	Results	Remarks
H <sub>A1</sub> : Entrepreneurial Innovation competence positively influences the growth of micro and small enterprise in Nairobi County	$\beta=0.622$ , $p=0.000$	Accept H <sub>A1</sub>

## CONCLUSIONS, RESEARCH GAPS AND RECOMMENDATIONS

### Conclusions

In conclusion, innovation competence has a positive influence on the growth of micro and small enterprises. It enables them to be more competitive in their respective markets, develop new products, services, and processes, and improve their operations. It also helps them gain new customers and increase their profits. With the right combination of resources, technology, and knowledge, micro and small enterprises can unlock the potential of innovation and create a positive impact on their growth.

### Research Gaps

The study addressed lack of information gap as cited by Kimathi, (2020) who found in his study that there is a pronounced lack of information gap about why many Kenyan entrepreneurs do not flourish in their micro and small endeavors as a result of lack of innovation knowledge.

The data from the study will inform the policy makers to understand the entrepreneurial environment so that they can come up with viable policies and development programs to promote entrepreneurial management in the country. The lack of data was cited by Ndemo & Aiko, (2016).

### Recommendations

This study recommended that micro and small enterprises should invest in technological innovation to enhance their growth. Investing in technology is one of the most effective ways for micro and small enterprises to enhance their growth. Investing in the latest software and hardware solutions can help increase productivity, streamline operations, and improve customer service. Additionally, investing in technology can help micro and small enterprises stay competitive in the global marketplace. Micro and small enterprises should utilize outsourcing of key innovations to enhance growth. Outsourcing certain tasks or processes can be a great way for micro and small businesses to adopt innovation competence and enhance their growth. Outsourcing allows businesses to reduce costs, access specialized knowledge and expertise, and free up resources for other areas. Finally, this study recommended taking advantage of networking opportunities to build relationships with potential customers, partners, and suppliers. By developing strong relationships and tapping into networks of experts,

businesses can gain insight into the latest trends and have access to resources that can help them stay competitive. Additionally, networking can also be a great way for micro and small enterprises to find new customers and opportunities for growth.

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