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Abstract

Micro, Small and Medium Enterprises (MSMEs) play a seminal role in improving social and economic sectors through stimulating large scale employment, development of indigenous skills and technology, promoting entrepreneurship and innovativeness and building an industrial base at different scales. In Kenya, the SME sector is critical and strategic in attaining vision 2030 and is central in national strategies for employment and wealth creation as well promoting innovation. Despite their importance, the MSMEs in Kenya continue to suffer slow growth and performance. This has partly been attributed to lack of ineffective marketing practices with statistics estimating that among the licensed firms, micro (58.3%), small (35.6%) and medium (33.5%) sized establishments in Kenya do not market or advertise their products/services. The purpose of this study was to ascertain the effect of product and service innovation as entrepreneurial marketing strategy, on the performance of Micro, Small and Medium Enterprises (MSMEs) in Kenya. The study was guided by positivism research philosophy. Descriptive survey design was adopted. The study population included 8,526 licensed MSMEs in Tharaka-Nithi County. Stratified sampling and random sampling techniques were employed to arrive at the study sample size of 368 MSME owners/managers. Data was collected using questionnaires through hand and delivery procedure. Quantitative data was analyzed using both the descriptive statistics and inferential statistics. The results of this study ascertained a significant positive effect of product/service innovation on the performance of MSMEs. Specifically, the regression results produced a coefficient of (β= 0.676, $p < .05$, Sig 000). This implies that for every unit increase in product/service innovation, performance increased by 0.676 units' other factors held constant. Pearson product moment correlation coefficient ($r = 0.701$, p-value =0.000< 0.05) establishes a positive strong correlation between product/service innovation and performance of MSMEs. Based on the findings of this

study, it can be concluded that product/service innovation significantly enhances performance of the MSMEs in Kenya. Thus, product/service innovation achieved through introduction of new/improved products/services and enhanced service quality presents an opportunity for entrepreneurial firms to gain traction through the gains accruing from innovations and a necessary continuous activity for long term entrepreneurial success. The study recommends that MSME owners/ managers should be more proactive towards product/service innovations. The entrepreneurs are urged to proactively introduce new/improved products/services while enhancing service quality.

Keywords: *Product and Service Innovation, Performance of Micro, Small and Medium Enterprises, Tharaka-Nithi County.*

1.1 Introduction

Micro, Small and Medium Enterprises (MSMEs) play a seminal role of improving social and economic sectors through stimulating large scale employment, development of indigenous skills and technology, promoting entrepreneurship and innovativeness and building an industrial base at different scales (Riswanto *et al*, 2020). According to Kawira, Mukulu and Odhiambo (2019), the SME sector in Kenya is critical and strategic in attaining vision 2030 and is central in national strategies for stimulating economic activity, reducing unemployment and poverty. KNBS (2016) underscored the important roles that MSMEs play in Kenya's development process, particularly in the context of generating employment and income opportunities for majority of the people. Indeed, the MSME sector provides employment for substantially more people than does the formal sector. It is estimated the sector currently employs approximately 14.9 million people accounting for 83% of total employment and contributes 33.8% of the total GDP.

Additionally, the MSME sector is not only a provider of goods and services but also a driver in promoting competition and innovation while enhancing the enterprise culture which is vital for economic development, industrialization and modernization (KIPPRA, 2019). Thus, the MSMEs form the foundation of a strong national industrial base and a domestic production structure that are central to the Kenyan government's vision of achieving a newly industrialized status by the year 2030. Further, MSMEs form a supply chain for large local and multinational companies, create a more resilient, diversified economy with more dynamic private sector participation, drive innovation and homegrown champions who can compete internationally, gender equality as well as assist in achieving a more balanced, inclusive growth by addressing the bottom of the income pyramid (Kiveu, Namusonge & Muathe, 2019).

The Kenyan Micro and Small Enterprises Act (2012) defines a micro enterprise as a firm engaging in trade, service, industry or a business activity whose annual turnover does not exceed five hundred thousand shillings and employing less than ten people and small enterprises as those with annual turnover of between five hundred and five million shillings employing between 10 and 50 people. *Sessional Paper No. 2* (RoK, 2005), defined a micro enterprise as a firm with 1-9 employees, a small enterprise 10-49 employees, a medium enterprise 50-99 employees and a large enterprise above 99 employees. This definition was conceptualized for this study. This was to allow for ease of alienation of the target population.

Despite their fundamental roles, MSMEs continue to suffer the setbacks of slowed growth and performance, with an estimated 70% folding up by the third year of operation (WB, 2015). In Kenya, the 2016 micro, small and medium enterprise survey indicated that a total of 2.2 million establishments closed shop in the last five years (KNBS, 2016). Previous studies attributed the poor performance of MSMEs to competition, rapid technological changes, market liberalization, poor infrastructure, defeatist attitudes, poor access to markets and capital. Importantly, the KNBS (2016) survey revealed that MSMEs in Kenya lack or practice ineffective marketing practices with the survey report analysis showing that among the licensed businesses, micro (58.3%), small (35.6%) and medium (33.5%), sized establishments do not market or advertise their products/services.

Marketing, and specifically entrepreneurial marketing plays a fundamental role towards the superior performance and survival of MSMEs. Entrepreneurial marketing is an organizational function and a set of processes for creating, communicating and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders, and that is characterized by innovativeness, risk-taking and pro-activeness (Kraus, Harms & Fink, 2010). Further, businesses in the current environment experience increasing levels of uncertainty due to rapid changes in operating environment, fluctuations in the economy, technological disruptions and hence the advertent need for more innovative and cost effective practice-based marketing approaches that MSMEs can leverage to increase performance. Therefore, MSMEs can only effectively deliver on their fundamental roles when a good number of strategies including the formulation and application of appropriate entrepreneurial marketing practices such as product and service innovation are put in place to exert a positive effect on performance (Chege, Wang and Suntu, 2020).

1.2 Statement of the Problem

The strategic roles of micro, small and medium-size enterprises (MSMEs) in the economic development of both developed and developing nations have always been acknowledged. However, despite their socio-economic significance, and the numerous past policy initiatives introduced by different governments across the world to accelerate the growth and survival of MSMEs, the sector continues to face constraints that limit their performance and survival. In Kenya, it is estimated that a total of 2.2 million MSMEs were closed between the years 2012 to 2016 (KNBS, 2016). This has partly been attributed to lack of or deployment of ineffective marketing practices with previous data estimating that among the licensed firms in Kenya, micro (58.3%), small (35.6%) and medium (33.5%) sized establishments do not market or advertise their products/services (KNBS, 2016).

In the past, the lack of adequate attention to product and service innovation as an entrepreneurial marketing practice-based approach denied the MSMEs owners requisite information necessary for increased performance of their enterprises (Ndururi, Mukulu & Omwenga, 2019). Therefore, the need for an understanding of the application of product and service innovation, as an entrepreneurial marketing approach towards enhanced competitive advantage over other business rivals has gradually become a matter of pivotal concern to many scholars and entrepreneurs. Therefore, the focus of this study was to ascertain the effect of product and service innovation on the performance of Micro, Small and Medium Enterprises (MSMEs) in Kenya.

1.3 Objective of the study

To ascertain the effect of product/service innovation on the performance of MSMEs in Kenya.

1.4 Research Hypothesis

H_a: Product /service innovation has a significant and positive effect on the performance of MSMEs in Kenya.

2.1 Theoretical Review

This study was guided by the Schumpeterian Theory of Innovation. With the process of creative destruction, Schumpeter (1934) was one of the earliest scholars in highlighting the importance of innovation in entrepreneurial activity. He argued that the creative destruction was a process that disrupts current market structures by means of new goods or services, new markets, new production process, sources of supply and organization structures. Innovation mainly refers to an iterative process initiated by the perception of a new market and/or new service opportunity which leads to development, production, and marketing tasks striving for its commercial success.

Accordingly, Schumpeter calls innovation the specific tool of entrepreneurs, the means by which entrepreneurs exploit change as an opportunity for a different business or a different service. Schumpeter (1943) stressed the role of entrepreneurs as primary agents effecting creative destruction, and emphasized to the entrepreneurs the need to search purposefully for the sources of innovation, the changes and their symptoms that indicate opportunities for successful innovation as well as their need to know and to apply the principles of successful innovation.

The Schumpeterian articulation of innovation has been carried forward by successive scholars and researchers. On his part, Drucker (1985) held out that entrepreneurs are always searching for change, responding to it, and exploiting it as an opportunity, and engaging in purposeful innovation. Furthermore, the link between entrepreneurship and innovation is supported by the results of Kimathi, Mukulu and Odhiambo (2019) who found that innovation is among the key motives to start a business. Schumpeterian theory supposes that a firm's progress comes from innovations they carry out motivated by the pursuit of profit. That is, each innovation is aimed at creating some new process or product or service that gives its creator a competitive advantage over its business rivals by rendering obsolete some previous innovation (Mwangi & Ngugi, 2019).

Therefore, in entrepreneurship, innovation provides a holistic, vibrant and complementary base to entrepreneurial conduct resulting to an organization's sustainability and superior performance. Thus, this theory provided a deeper understanding of innovation and its elements in the entrepreneurship marketing process that significantly influences firms' competitiveness and hence their performance.

2.2 Conceptual Framework

In entrepreneurship, innovation is regarded as the tendency to engage in creativity and experimentation through the introduction of new or improved products and services, differentiated delivery channels, markets, organization structures and production processes. It reflects the firm's tendency to embrace new technologies or practices and go beyond the current state of affairs.

Innovation is widely regarded as one of the most important sources of sustainable competitive advantage in an increasingly changing environment for its role in product and process improvements and continuous advances that lead to firms' efficiency, growth and survival culminating to superior performance when compared to the non-innovators.

At the firm level, intense competition under the global economic framework requires micro, small and medium enterprises to reconsider their competitive position in relation to their rivals through innovation. With the shortened product life cycles, firm ability to generate innovations may be more important than ever in allowing firms to improve performance and maintain competitive advantage. Therefore, product/service innovation allows for the introduction of a good or service that is new or significantly improved regarding its characteristics or intended uses including significant improvements in technical specifications, components and materials, incorporated software, user friendliness or other functional characteristics (Oke,2015). Thus innovation is an opportunity for entrepreneurial firms to gain traction through the temporary gains accruing from an innovation and a necessary continuous activity for long term entrepreneurial success.

In this study, the conceptual framework was used to show the effect of the independent variable of Product and service innovation on the performance of MSMEs in Kenya as illustrated in Figure 1.

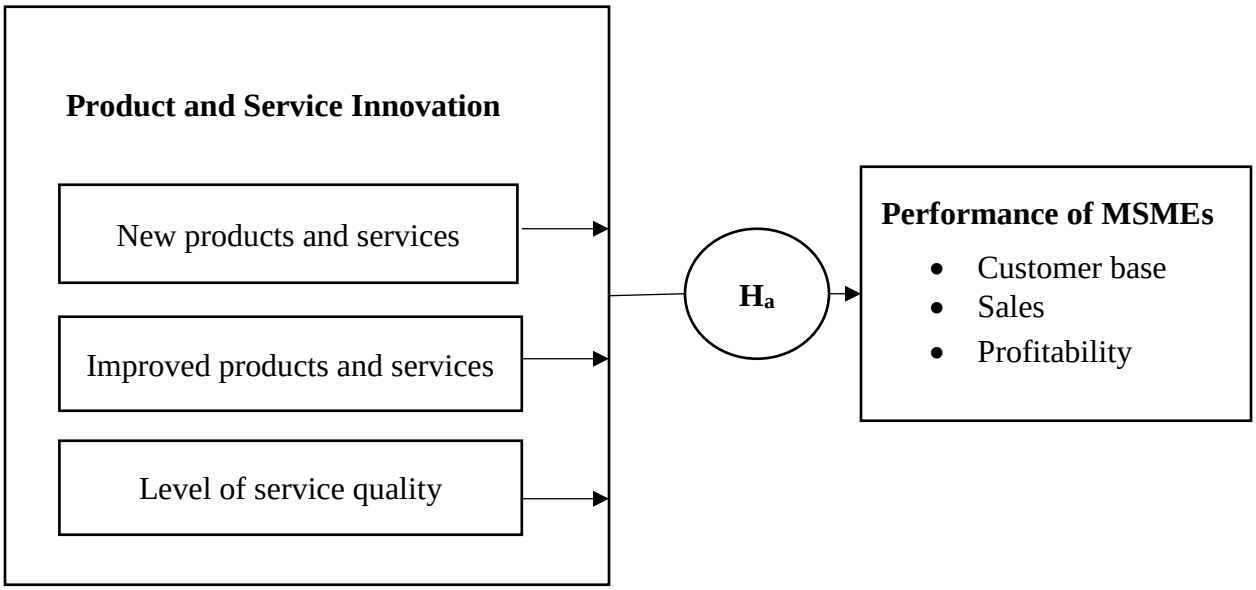

Figure 1: Conceptual Framework

2.3 Empirical Review

Mennens, Van Gils, Odekerken-Schröder and Letterie (2018) explored on the antecedents of service innovation performance in manufacturing SMEs. Starting from a dynamic capabilities perspective, this article predicts that absorptive capacity is one such critical factor, which in turn may be driven by employee collaboration and the firm's search breadth. The findings of a survey study of small to medium-sized Dutch manufacturing firms confirm that employee collaboration and search breadth have positive effects on an organization's potential absorptive capacity, whereas employee collaboration also reinforces its realized absorptive capacity. Thus realized absorptive capacity ultimately enhances service innovation performance.

McDermott and Prajogo (2012) examined the relationship between exploration and exploitation innovation, and business performance in small and medium enterprise (SME) service firms. The paper also examines the interaction between the two innovation orientations in predicting business performance, and the influence of size in the effectiveness of each of them in enhancing business performance. Using empirical data drawn from 180 managers in Australian service organisations, this study also compares the effect of ambidextrous innovation on business performance within these SMEs. The findings indicated that, controlled for size, neither of the innovation orientations show significant, direct relationships with firms' performance. However, ambidextrous innovation was positively associated with business performance, indicating a synergy between exploration and exploitation. Further the results indicated the relationship between exploration/exploitation innovation and performance is moderated by size within the authors' sample of small firms.

Rosli and Sidek (2013) carried out a study titled: The Impact of Innovation on the Performance of Small and Medium Manufacturing Enterprises: Evidence from Malaysia. A total of 284 samples were collected from SMEs in the food and beverage, textiles and clothing and wood-based sub-industries throughout Malaysia. The study was guided by the following hypotheses (1) Product innovation is positively associated with firm performance (2) Process innovation is positively associated with firm performance and (3) Market innovation is positively associated with firm performance. The data were analyzed using a hierarchical regression analysis. The findings confirmed the hypotheses that product innovation and process innovation influenced firm performance significantly, where the impact of the former was stronger than the latter.

Forkuoh *et al.* (2016) researched on product innovation and SMEs performance in the manufacturing sector of Ghana. The study employed firm level data and the structural equation model. Product innovation was grouped into three (development of new product, introduction of new product and improvement of existing product), while performance indicators were the growth in number of employees and total sales of the firm. Survey techniques were employed to gather data from 400 SME owner managers in Ghana. In-depth information was obtained from the sampled views of SME owner managers utilizing structured questionnaires pertaining to issues on product design and the performance of firms. Principal component analysis with factor analysis as an extraction method and a structural equation model were utilized to analyze the data obtained and to test the relationships in the specified constructs in the proposed research model. The results indicated a positive growth path between all the three variables and the firm's performance with the introduction of new products having the highest, indicating that, firms can improve their performance by adopting product innovative practices with much concentration on the introduction of new products.

Atalay *et al.* (2013) investigated the relationship between innovation and firm performance: An empirical evidence from Turkish automotive supplier industry. The survey of this study was conducted on top level managers of 113 firms operating in the automotive supplier industry being one of the most innovative industries in Turkey, as of the year 2011. The study was guided by the following hypotheses (1) Product innovation has a positive impact on firm performance (2) Process innovation has a positive impact on firm performance (3) Organizational innovation has a positive impact on firm performance and (4) Marketing innovation has a positive impact on firm performance. The obtained data from the questionnaires was analyzed through the statistical package program (SPSS). The results demonstrated that product and process innovation had significant and positive impact on firm performance, but no evidence was found for a significant and positive relationship between organizational and marketing innovation and firm performance.

3.1 Methodology

The study was guided by positivism research philosophy. It utilized a descriptive survey design. The study population included 8,526 licensed MSMEs in Tharaka-Nithi in the year 2017. Stratified sampling and random sampling techniques were employed to arrive at the study sample size of 368 MSME owners/managers. The sample size was adopted from Krejcie and Morgan (1970) sample size table developed using the sample size formula for a finite population;

$S = \chi 2\ NP\ (1-P) \div d\ 2\ (N-1) + \chi 2P\ (1-P)$.

S = required sample size,

N = the population size.

$\chi 2$= the table value of chi-square for 1 degree of freedom at the desired confidence level (3.841).
P = the population proportion (assumed to be .50 since this would provide the maximum sample size).

d = the degree of accuracy expressed as a proportion (.05).

Data was collected using questionnaires through hand and delivery procedure. To ensure reliability of the study, a pilot study was carried with 37 questionnaires followed by the computation of the Cronbach's alpha coefficient for each of the variables. The proposed pilot test falls within the rule of thumb as proposed by Mugenda and Mugenda (2003) that 10% of the sample should constitute the pilot test. For content validity, the researcher solicited for expert opinion from the university supervisors, peers and professionals in the industry.

3.2 Data processing and analysis

For completeness and consistency, the collected data was processed via editing and coding before analysis. Qualitative data was analyzed using content analysis and interpreted through identification of main themes. Quantitative data was analyzed using both the descriptive and inferential statistics. The descriptive statistics included frequency distributions mean and measures of dispersion while the inferential statistics were t-test, multiple regression analysis, Karl-Pearson correlation coefficient and F-test.

3.3 Statistical Model and Hypothesis Testing

To test the independent variable against the dependent variable (performance of MSMEs), t-test was used. For majority of business and management studies, researchers are satisfied to estimate the population's characteristics to be within plus or minus 3% to 5% of its true values (Saunders *et a*l., 2012). Accordingly, for this study, the desired level of precision was +/– 5% and a confidence level of 95%. The decision level was, reject null hypothesis if P<0.05. Karl Person correlation coefficient was used to test the level and direction of correlation between the independent variable and dependent variable. A bivariate regression analysis model was applied to ascertain the effect of product and service innovation (independent variable) on the performance of MSMEs (dependent variable) in Kenya. The regression model was conceptualized as follows;

$Y = \beta_0 + \beta_1 X_1 + \varepsilon$ where:

Y =MSMEs Performance

X_1 = Product/ service innovation

β_0 = Constant

β_1 = Regression coefficient

ε = Error term

4.1 Findings and Discussions

Innovation is widely regarded as one of the most important sources of sustainable competitive advantage in increasingly changing and hypercompetitive business environments. It plays a seminal role in product and process improvements, continuous advances that lead to firms' efficiency, growth and survival culminating to superior performance when compared to the non-innovators. Therefore, product/service innovation is one of the key factors for firms' success, survival and sustainable competitive advantage (Pham & Matsunaga, 2019).

This study sought to examine if the respondents engaged in any form product /service innovations as a marketing tool. As shown in Table 1, more respondents at 56.6% employed product/service innovation as a marketing strategy.

Table 1: Frequency Distribution on the Use of Product /Service Innovation

Factor	**Do you deploy product /service innovation as a marketing tool to your business?**				
	Yes	%	No	%	Total
Respondents	171	56.6%	131	43.4	302

Majority of the respondents at 93.4 % agreed that they were using the innovative methods of constantly introducing new and improved products and quality service together. In addition, others (22%) relied on catchy display and repackaging of products as innovative ways of attracting customers.

On cross tabulating the results from the respondents that employed product/service innovation as a marketing strategy and their perceived firm performance over the last three years. The results showed 39% of the firms to be growing as opposed to 9% who felt that their performance was declining as enumerated in Table 2.

Table 2: Cross tabulated results on use of Product/Service Innovation and Perceived Firm Performance in the last three years

Factor		Do you deploy product /service innovation as a marketing strategy to your business				
		Yes	**%**	**No**	**%**	**Total**
Which of the status below best describes your firm performance in the last three(3) years	Growing	119	39%	95	31%	214
	Remained the Same	24	8%	24	8%	48
	Declining	28	9%	12	4%	40
Total		171	57%	131	43%	302

Likewise, the respondents were asked to evaluate a set of statements on product/service innovation strategies in relation to their firm performance over the last three years. As illustrated in Table 3, 74.0% of the respondents felt that introducing new products grew their sales volumes, customer base (86%) and profitability (80.0%). Equally, 80.0%, 79.0% and 81.0 % were of the opinion that constantly improving the product /service offering improved their sales volumes, customer count and profitability respectively.

The results further indicated that enhanced service quality led to better sales volumes, client count and profitability as illustrated by 74.0%, 78.0% and 83.0 of the respondents respectively. In sum total, 70.0% of business owners/managers agreed that product/service innovation was cardinal in enhancing their firm's overall performance. Additionally, all the resulting mean values of above 4.0 and standard deviation of less than half the mean values signified that there was low variability in the responses of variables explaining product/service innovation as an effective marketing tool. The overall mean of 4.332 and a standard deviation of 1.330 showed that the difference in

responses given was insignificant. Thus, it can be concluded that business entities that aptly deploy products/services innovation as an entrepreneurial marketing tool are more likely to record superior performance as compared to the non-innovators.

Table 3: Product/Service Innovation and Performance of MSMEs

Code	Product/Service Innovation Strategy	SD (%)	D (%)	N (%)	A (%)	SA (%)	Mean	Std. Deviation
PSIS1	A business firm that frequently introduces new products/services is more likely to retain and attract more customers	0	4	9	50	36	4.33	1.351
PISI2	New products/services positively influences the a firms 'profitability	2	6	12	46	34	4.24	1.323
PISI3	A firm that is constantly introducing new product/services offerings is more likely to achieve higher sales volumes	0	9	17	57	17	4.29	1.308
PISI4	Improved products/services positively and significantly influences the sales volumes	0	7	14	60	20	4.46	1.313
PISI5	Firms that consistently seek to offer improved products /services are more likely to attract new customers as well as retain the existing ones	3	8	10	57	22	4.41	1.334
PISI6	Adoption of continuous improvement on the product/services offering is a sure way to increase a firm's profitability	4	5	10	60	21	4.49	1.324
PISI7	Good quality customer service enhances a firm's client retention	7	7	8	45	33	4.26	1.339
PISI8	Business enterprises that always seek ways of improving service to customers are more likely to have higher sales volumes	9	9	8	53	21	4.34	1.326
PISI9	A business firm that focuses on satisfying their client's need is more likely to be more profitable	0	9	8	60	23	4.50	1.338
PISI10	Generally, product/service innovation positively and significantly the performance of enterprises	2	8	20	47	23	4.00	1.346
	Overall						4.332	1.330

4.2 Factor Analysis on Product/Service Innovation

The Factor analysis results on products/services innovation were as indicated in Table 4. Indicators of products/services innovation strategy scored factor loading of more than 0.5 and were therefore retained for further analysis. The sample was adequate since Kaiser-Meyer-Olkin measure of sampling adequacy (KMO) attained 0.959 which was above the threshold of 0.7. The products/services strategy total variance extracted was able to explain 79.557 % >70% of the total variance in the product/service innovation, hence the statements collectively explained the variation in the factor.

Table 4: Factor Analysis on product/service innovation

Product/Service Innovation Strategy	Factor Loading
A business firm that frequently introduces new products/services is more likely to retain and attract more customers	0.881
New products/services positively influences the a firms 'profitability	0.884
A firm that is constantly introducing new product/services offerings is more likely to achieve higher sales volumes	0.895
Improved products/services positively and significantly influences the sales volumes	0.896
Firms that consistently seek to offer improved products /services are more likely to attract new customers as well as retain the existing ones	0.914
Adoption of continuous improvement on the product/services offering is a sure way to increase a firm's profitability	0.892
Good quality customer service enhances a firm's client retention	0.893
Business enterprises that always seek ways of improving service to customers are more likely to have higher sales volumes	0.872
A business firm that focuses on satisfying their client's need is more likely to be more profitable	0.901
Generally, product/service innovation positively and significantly the performance of enterprises	0.890

KMO=0.959 ;Bartletts $p<0.05$; Total variance extracted=79.557%

4.3 Hypothesis Testing

Hypothesis H_a: Product /services innovation has a significant and positive effect on the performance of MSMEs in Kenya.

A Pearson's moment correlation test was performed to determine whether there exists a correlation between products/services innovation and performance of MSMEs in Kenya. As presented in Table 5, there was a strong positive correlation (0.701) between products/services innovation and performance of MSMEs. The p-value at 0.000, less than the alpha at 0.05 ascertained a high significant relationship between the variables. This infers that an increase in product/service innovation leads to a corresponding positive increase in performance of MSMEs.

Table 5: Pearson's Correlation Coefficient between Product/Service Innovation and Performance of MSMEs in Kenya

		Performance	Product/Service Innovation
Performance	Pearson Correlation	1	.701*
	Sig. (2-tailed)		.000
	N	302	302
Product/Service Innovation	Pearson Correlation	.701*	1
	Sig. (2-tailed)	.000	
	N	302	302

Further, a computation of R square gave a result of 0.492 as per Table 6. This inferred that 49.2% of the variation in performance can be explained by the changes in product/service innovation leaving 50.8 % unexplained (error term).

Table 6: Product/Service Innovation Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.701[a]	.492	.490	.73850659

a. Predictors: (Constant), Product/Service Innovation

Further, the ANOVA regression results on the product/innovation variable produced a p value 0.000 < 0.05 as shown in Table 7. This inferred that the model of product/service innovation and performance of MSMEs was overally significant at α=0.05.

Table 7: ANOVA Regression Results between Product/Service Innovation and Performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	158.332	1	158.332	290.308	.000[b]
	Residual	163.618	300	.545		
	Total	321.949	301			

a. Dependent Variable: Performance
b. Predictors: (Constant), Product/Service Innovation

Similarly, Table 8 shows that the regression weight for product/service innovation was positive and significant (β= 0.676, p < .05, Sig 000) with the model summarized as $Y=0.129+0.676X_1$. Since, β_1 =0.676, it can be concluded that one-unit increase in product/service innovation increases performance by 0.676 units' other factors held constant. In addition, p-value of product/service at 0.000<0.05, confirms that product/service individually significantly influenced performance of MSMEs in Kenya. Therefore, the study supported the statistical hypothesis H_a: Product /services innovation had a significant and positive effect on the performance of MSMEs in Kenya.

Table 8: Coefficients of Product/Service Innovation and Performance of MSMEs

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.129	.043		3.024	.003
	Product/Service Innovation	.676	.040	.701	17.038	.000

a. Dependent Variable: Performance

4.4 Discussion of Results on the Effect of Product/Service Innovation on Performance of MSMEs

The results of this study ascertained a significant positive effect of product/service innovation on the performance of MSMEs. Specifically, the regression results produced a coefficient of (β_1= 0.676, p < .05, Sig 000). This means that for every unit increase in product/service innovation, performance increased by 0.676 units' other factors held constant. Pearson product moment correlation coefficient (r = 0.701, p-value =0.000< 0.05) establishes a positive significant correlation between product/service innovation and performance of MSMEs. Hence, the study supported the alternative hypotheses Ha: Product /services innovation has a significant and positive effect on the performance of MSMEs in Kenya.

These findings are consistent with past research. For instance, Mennens, Van Gils, Odekerken-Schröder and Letterie (2018) found that employee collaboration and search breadth have positive effects on an organization's potential absorptive capacity, whereas employee collaboration also reinforces its realized absorptive capacity. Phua *et al.* (2014) while examining the role of marketing practices on the performance of entrepreneurial ventures concluded that practices such as product/service innovation, market research and service quality and functionality do help establish competitive advantage. Atalay *et al.* (2013) concluded that product and process innovation positively and significantly affect firm performance.

Additionally, Forkuoh *et al.* (2016) researched on product innovation and SMEs performance in the manufacturing sector of Ghana. The results showed a positive growth path in firm's performance with the adoption of product innovation practices with much concentration on the introduction of new products. Rosli and Sidek (2013) examined the role of Innovation on the performance of small and medium manufacturing enterprises in Malaysia. The findings confirmed that product innovation and process innovation influenced firm performance significantly.

The results further support the work of Schumpeter (1934). Schumpeterian theory supposes that a firm's progress comes from innovations they carry out motivated by the pursuit of profit. He emphasized to entrepreneurs the need to search purposefully for the sources of innovation, the changes and their symptoms that indicate opportunities for successful innovation as well as their need to know and to apply the principles of successful innovation for superior firm performance. Thus, each innovation should be aimed at creating some new process or product or service or new service delivery models that gives its creator a competitive advantage over its business rivals by rendering obsolete some previous innovation.

5.1 Conclusion

Based on the findings of this study, it can be concluded that product/service innovation significantly enhances performance of the MSMEs in Kenya. Thus, product/service innovation achieved through introduction of new/improved products/services and enhanced service quality presents an opportunity for entrepreneurial firms to gain traction through the temporary gains accruing from an innovation and a necessary continuous activity for long term entrepreneurial success.

5.2 Recommendations

The study recommends that MSME owners/ managers should be more proactive towards product/service innovations, pay attention to changes happening in the operating environment and adjust their competitive strategies appropriately to stay ahead of competition. The entrepreneurs are urged to proactively introduce new/improved products/services while enhancing service quality.

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