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# INFLUENCE OF INNOVATIVENESS ON PERFORMANCE OF FOOD AND BEVERAGE MANUFACTURING ENTERPRISES IN NAIROBI CITY COUNTY.

***ThuitaT.M.,MiritiG.andMwirigi R.***
*ChukaUniversity,P.OBox109-60400,Chuka*
*tthuita@chuka.ac.ke*

## *Citation*

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## ABSTRACT

Increase in global competition, ever-changing technologies and unstable business environment as a result of globalization, market liberalization and Covid 19 impact on businesses, have made firms search for other means of survival and growth. Food and beverage manufacturing enterprises are also experiencing these challenges. This is demonstratedbythedecreaseincontributiontoGDP,rangingfrom13.6%intheearly1990sto7.6%in2020,thereby raising doubt on whether the sector is capable to meet the goals of Vision 2030. Different studies around the world havesuggestedtheadoptionofentrepreneurialpracticesaspartofthesolution.However,thefindingsofthesestudies have been inconclusive. The objective of this study was to establish the influence of Innovativeness on performance of food and beverage manufacturing enterprises in Nairobi City County. Descriptive survey research design was adopted. The target population was one hundred and thirty-eight food and beverage manufacturing firms registered underKAMby2020.Acensuswasconductedanddatawasobtainedusingaquestionnaire.Datawasanalyzedusing simpleand multipleregressionanalysis withthehelpofSPSSversion25.0.Hypothesiswastestedusingt-statisticat 5% significance level. The study found that innovativeness had a positive influence on performance (regression coefficient0.446,p-valueof0.000).Thestudyrecommendsthatfirmsshouldassesstheirabilitytoembracenewideas andprocessesthat willleadtodevelopmentofnewproducts,services,marketsortechnologies.Innovativenessplays an essential role in doing away with challenges associated with businesses.

**Keywords:** Innovativeness, Performance, Food and beverage manufacturing enterprises and Kenya Association of Manufacturers.

## INTRODUCTION

Innovationrepresentstheextentintowhichafirmtakespartinorwelcomesnewideas,products,servicesorprocesses (Gathenya,2011;Wangetal.,2008).Byoutliningtheprocessofcreativedestruction,Schumpeter(1942)stressedthe importanceofinnovation in theprocessofentrepreneurship.When marketsystemsaredisturbed bythe entryof new goods or services, this process takes place. According to Onyango and Ngahu (2018), the main aspect in entrepreneurship has been proven to be the innovation as it is a consistent theme used in literature. Innovations can differ in their magnitude and innovativeness represents a fundamental inclination towards withdrawing from technologiesorpracticesthathavebeenusedformerlyandventuringbeyondthem(Lin&Ho,2008;Kimberly,1981). There are many ways to categorize innovations, but among the most important ones are technological innovation, market

innovation, process innovation, and product innovation. This can be accredited to the fact that all other classifications of innovation can fall under these three major categories (Mwaura et al., 2015; Callaghan, 2009; Lumpkin &Dess, 1996).

Innovativenesscantakeonmanydifferentforms,suchasembracingnovelconcepts,doingresearchanddevelopment to create new goods, entering untapped areas, or implementing cutting-edge technology to the firm's advantage (Wiklund& Shepherd, 2003). Additionally, Lin and Ho (2008) suggest that innovation is important for the creation of new products and the dissemination of information for advancement in the future. Accordingly, high levels of technology, product and market innovation reflect an essential gauge for SMEs performance (Avlonitis&Salavou, 2007). Lee and Lim (2019) posit that firms which are innovative and apply creativity will create remarkable performanceandeconomicgrowth(Ritala&Laukkanen,2013;Kraus etal.,2012).Majorityofstudiesadvocatethat, innovativeness is one of the essential strategic orientation firms can use to attain success in the long run and better their performance (Brettel&Rottenberger, 2013).. Innovations can differ in their magnitude and innovativeness representsafundamentalinclinationtowardswithdrawingfromtechnologiesorpracticesthathavebeenusedformerly and venturing beyond them (Lin & Ho, 2008; Kimberly, 1981). There are many ways to categorize innovations, but among the most important ones are technological innovation, market innovation, process innovation, and product innovation. This can be accredited to the fact that all other classifications of innovation can fall under these three major categories (Mwaura et al., 2015; Callaghan, 2009; Lumpkin &Dess, 1996).

InKenya,oneofthetopthreeproductionindustriesisusuallymanufacturing(KNBS,2016).Manufacturingfirmsare thoseentitiesthatengageinphysicalactivitiesorprocessesthataddvaluetoaproductor rawmaterial(Pycraftetal., 2010). Kenya's manufacturing industry contributes 65 percent of all industrial sectors' GDP. One of the important industriesidentifiedinKenya'sVision2030thatcanpromoteeconomicgrowthisthisone(Kirungu,2012).Underthe Big 4 Agenda of Agro-processing, the Government targets to improve manufacturing from 16% to 50% in terms of how it contributes to GDP, create 1000 SMEs and generate 200,000 jobs. According to GOK (2015), the manufacturingsectorcontributed11%oftheKenyanincomeandaccordingtoWorldBankGroup(2018)ithashence been on a downward spiral. By the year 2016, the sector contributed 9.3% of GDP, 26% merchandise exports and 280,000 job opportunities (KNBS, 2017). A significant tradable sector and a driver of economic expansion is the manufacturingindustry(Rotich&Wanjau,2011).However,thissectorhasbeenexperiencinglowgrowthrateswhich average to 4% over the last decade (KAM, 2016). In 2000 (CCG, 2008), manufacturing was the second-largest economicsubsector;however,in2010itrankedfourth(WorldBank,2013).So,from13.6percentintheearly1990s to 9.3 percent in 2016, 8.7 percent in 2017, 8.4 percent in 2018, 7.9 percent in 2019 and 7.6 percent in 2020, it has decreased its contribution to GDP (KNBS, 2021).

Food and beverage is one of the biggest sectors in the world (McGrath, 2016). It comprises of all the firms involved in processing of raw food materials and converting them into finished products. Nationally, most of them have their headquartersinNairobiCityCountyandareprivatelyowned(KAM,2020).AccordingtoMutungaandMinja(2014), food and beverage manufacturing sector has growth prospects. This is highly attributed to the fact that Kenya is an agriculturalcountry whichprovidesthem with moreopportunitiesfor manufacturinglocallyproduced products.The contribution of food and beverage manufacturing sector is big. In the year 2017, the food and beverage sector contributedto41%oftheGDP ofthe manufacturingsectorwhichinturncontributedto11.4%ofthecountry'sGDP (KNBS, 2018). About 3.5 percent of the GDP and Ksh 254,686 million in exports were attributed to food, beverage andtobaccoin2017(KAM,2018;KenyaBusinessGuide,2018).Thefoodandbeveragemanufacturingsectordirectly impacts the overall economy. However, despite the various interventions that the government has instituted to uplift thesector including governmentspendinginline withthe medium-termplan3 (MTP 111) geared towardsempowering thesectortoachieveitsobjectivesofBig4Agenda,Vision2030andKenyaindustrialtransformationprogramme,the sector is still stagnant.

AccordingtoKenya'sEconomicSurvey(2020),thevalueaddedbyfoodandbeveragemanufacturingsectorhasbeen declining from 41% in 2017, 40.5% in 2018, 39.8% in 2019 to 37.9% in 2020 (World Bank, 2021). This sector has beenfacingseveralchallengesleadingtodeclingmarginsandcontributiontotheoveralleconomicgrowth.Thishas beenagrowingindustrythat hasexperiencedarapidgrowthfromtheearly80'suntilrecently.Thehighcompetition has resulted in a flooded market with products from other countries taking up a large market share of Kenyan local market(Kenya,2008).Incomparisontoothercountries,thesector'scontributionisstilllow.InSudanthecontribution of the food and beverage sector was 51.44%, 45.6% in Ethiopia and Iran 43.1% in 2019 (KAM, 2020).

Performance is an outcome of enterprise activities. According to Lamine and Lakhal (2018), performance is an analysis of the firm's activities to confirm if it is working towards achieving goals. Financial performance, market performance,andshareholderreturnoninvestmentareallfacetsofperformance(Neely,2002).Richard etal.(2009), noted that despite firmperformance beingcommonlyused, it israrelydefined or measured consistently. The goal of this study was to find out the extent into which entrepreneurial orientation affected performance.According to Behn (2003)differentpurposesrequireddifferentmeasuresforthemtobemeaningfulwhileVenkatramanandRamanujam (1986) positthat, bybroadeningtheperformance measures, theresearcher willfacechallenges whencollectingdata. Several measures have been adopted by different researchers to measure performance in relation to entrepreneurial orientation. It is in this regard, that the current study adopted sales growth, profitability and market share growth as the dimensions to measure performance. These dimensions were in line with the research objectives and have previously been adopted by other researchers (Mburu, 2019; Kithaka, 2016).

In order to ascertain the connection between EO and performance of SMEs in Labuan, Baba and Elumalai (2011) carriedoutastudy. Accordingto thestudy,differenttypesofcompetitiveaggressiveness, proactiveness,risk-taking, and innovativeness have their own unique relationships with organizational performance. The study looked at entrepreneurial inclination as a multidimensional phenomenon. As a result, additional studies on the influence of entrepreneurial orientation as a unidimensional construct are required, which is one of the study's main foci.

Yoon et al. (2012) established that, there was positive impacts on performance in relation to overall entrepreneurial orientationofstart-upsinSouthKorea.OverallEOeffectonfirmperformancewassignificantlynotableinearlystage and in growth stage. However, for pro-activeness, performance effect of entrepreneurial orientation was only significantinthe growthstage and notfor earlystage. Ingrowthstage, theperformance effectofinnovativeness was found to be significant, but insignificant for risk-taking. The study concluded that, entrepreneurial orientation effect patternsarecontingentonthestageofgrowthandarenotuniversalistic.Theysuggestedthat,multidimensionalaspect of entrepreneurial orientation seems to bemore realistic than overall entrepreneurial orientation when displaying the degree of development of entrepreneurship. This is in contrast with studies done by other scholars such as Miller (1983) and Lumpkin and Dess (1996), thus the need for more research.

Ali and Abdel (2014) did a study in order to ascertain the impact of entrepreneurial orientation on the efficiency of Somali women-owned businesses A sample of 200 firms was purposefully chosen to complete the questionnaire. Innovativeness was measured using products line changes and service line changes. The results showed a weak but significant positive relationship. By conceptualizing innovation differently, the current study sought to establish whether different results will be obtained.

According to a study by Atalay et al. (2013), technological innovation had a significant and positive impact on firm performance, but non-technology innovation had no impact on firm performance. The purpose of this investigation was to see if similar findings could be obtained by concentrating on the Kenyan environment and use other innovativeness indicators.

Hilgers (2011) did a study in the Netherlands to investigate the connection between international entrepreneurial orientationandperformance.Sixfamily-ownedmanufacturingcompanieswerethetargetrespondents.Thestudyused a multiple-case approach, and data were collected through interviews. The findings showed that innovativeness significantly improved performance when compared to pro-activeness, risk-taking, competitive aggressiveness, and autonomy.Thisstudyusedacensustoseeifitwouldyielddifferentresultsthatmaybeduetothelimitedsamplesize of those interviewed.

A2007studybyKehetal.soughttodeterminetheeffectsofentrepreneurialorientationandmarketingknowledgeon thesuccessofSMEsinSingapore.Datawasobtainedfromasampleof2239firmsbutonly294responseswereusable from retail and service sectors. The study found that innovative SMEs who always to take advantage of new opportunitiesachievebetterperformance.Theresponseswereтoofewfromthesampleusedandthusunrepresentative. By adopting a census survey of the target population, this study sought to determine whether it will yield more generalizable results by improving on the response rate.

InastudybyZerenleretal.(2008),whichaimedatevaluatingtheimpactofinnovativenessonSMEs'performancein theTurkishautomotive supplier business,it was discovered thatinnovation was stronglyassociated to SMEs'ability to grow. Similar findings were made byWu et al. (2008) who investigated the mediating influence of innovation on thegrowthofSMEsinTaiwan'smanufacturingandnon-manufacturingindustries.Theydiscoveredthattheseeffects are present at alevel of significance that is acceptable. These studies conceived innovation differentlyand evaluated its impact on SMEs. In the current study, innovation's impact on performance was evaluated both alone and in conjunction with other aspects of entrepreneurial orientation.

Similarly, Avlonitis and Salavou (2007) did a study on product innovativeness and performance among SMEs in Greece.Datawasobtainedfrom143SMEsfromfood,beverageandtextilesectors.DatawasanalyzedusingANOVA. The results indicated that more innovative SMEs have a considerably higher performance.The studyestablished the need for more and similar studies on the same in other countries and industries so as to validate the empirical data with theory.

In a study conducted by Khalili et al. (2013), the authors utilized confirmatory factor analysis to test their research hypotheses and analyze the data on the effects of entrepreneurial orientation on innovative performance in Iranian petroleumbusinesses.Thefindingsshowedthattheresearchvariableshadagoodassociation.Themethodologiesfor data analysis in the current study included descriptive statistics, regression, and correlation.

Kimani (2016) conducted a study in Kenya to determine whether financial innovation adoption enhanced SME performanceinKenya.487SMEsthatwereregisteredwithKRAmadeupthesample.Thefindingsindicateda

beneficialassociationbetweenperformanceandfinancialinnovation.Therefore,thecurrentstudysoughttoascertain whether the same findings would hold true if the manufacturing of food and beverages were the primary emphasis.

**Objectiveofthestudy**

Thegeneralpurposeofthestudywastoestablishtheinfluenceofinnovativenessonperformanceoffoodandbeverage manufacturing enterprises in Nairobi City County.

*$H0_{1:}$ Innovativeness has no statistically significant influence on the performance of food and beverage manufacturing enterprises in Nairobi City County.*

**METHODOLOGY**

Thestudyadopteddescriptivesurveyresearchdesignbecauseitdescribesthestateofaffairs,asitexistsatpresentin the study. The study targeted 138 food and beverage manufacturing enterprises in Nairobi city county that are registeredunderKenyaAssociationofManufacturers(2020).Censustechniquewasusedtoimprovethereliabilityof theresults.Datawascollected fromthegeneralmanagersusingaquestionnaire.DescriptiveandInferentialstatistics wereused to analyze data. Simpleand Multiplelinear regressionanalyses werethenconducted usingSPSSsoftware version 25.0 in order to address study objective. Assumption of linear regression model of multicollinearity, homoscedasticity, normality and autocorrelation were tested before analyzing the data.

**RESULTSANDDISCUSSIONS**

**InnovativenessandPerformance**

Innovativenesswasmeasuredintermsofnewproductsand services,newtechnologyand researchanddevelopment. Performance was measured using sales growth, profitability and market share growth. Descriptive statistics such as mean,standarddeviationandfrequencieswerecarriedout.Thesummaryofdescriptivestatisticsisshowninin Table1.

Table35:DescriptiveStatistics

| | 1 | 2 | 3 | 4 | 5 | Mean | S.D |
|---|---|---|---|---|---|---|---|
| | % | % | % | % | % | | |
| Theorganizationregularlyintroducesnew products | 0 | 6.2 | 19.6 | 54.6 | 19.6 | 3.88 | .794 |
| Theorganizationregularlyintroducesnew services | 0 | 1.0 | 25.8 | 53.6 | 19.6 | 3.9175 | .70223 |
| Theorganizationplacesastrongemphasison new innovative processes. | 0 | 2.1 | 23.7 | 55.7 | 18.6 | 3.9072 | .70832 |
| Thefirm hasincreasedthenumberofproducts offered during the past two years. | 0 | 0 | 22.7 | 51.5 | 25.8 | 4.0309 | .69901 |
| Thebusinessplacesastrongemphasison continuous improvement in products. | 0 | 0 | 23.7 | 47.4 | 28.9 | 4.0515 | .72702 |
| Theorganizationiswillingtoworktowards technological leadership | 0 | 0 | 20.6 | 49.5 | 29.9 | 4.0928 | .70832 |
| In the organization there is a strong relationship between the number of new ideas generated and the number of new ideas successfully implemented | 0 | 3.1 | 16.5 | 51.5 | 28.9 | 4.0619 | .76123 |
| Thefirmemphasizesonmarketresearchand development | 0 | 2.1 | 18.6 | 46.4 | 33.0 | 4.1031 | .77034 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Thefirmhasacultureofadoptingnewtechnology | 0 | 2.1 | 17.5 | 50.5 | 29.9 | 4.0825 | .74540 |
| Theorganizationsupportsdevelopmentofnew technology | 0 | 1.0 | 19.6 | 41.2 | 38.1 | 4.1649 | .77299 |
| Wehaveawidelyheldbeliefthatinnovationisan absolute necessity for the organization's future. | 0 | 2.1 | 15.5 | 43.3 | 39.2 | 4.1959 | .77243 |
| ValidN(listwise) | 97 | | | | | 4.044 | .50652 |

Theresultsshowthemeanoftheitemswas4.044meaningthat, majorityagreedtoagreatextentwiththestatements and there was no high variation of responses since the standard deviation falls within 0.699 and 0.794.These results implythat, most foodandbeverage manufacturingfirms haveincorporated innovativepracticesintotheiroperations andareawareofthebenefitsofinnovationtotheirenterprises. AccordingtoCovinandMiles(2011innovationisan essential aspect in entrepreneurship and entrepreneurship cannot exist without it.

**PearsonCorrelationbetweentheStudyVariables**

Correlationdeterminesthedirectionofarelationship between anytwo variables.Correlation waspresented inTable 2.

Table2:Correlationbetweeninnovativenessandperformance

| | | Performance | Innovativeness |
|---|---|---|---|
| Performance | PearsonCorrelation | 1 | .354** |
| | Sig.(2-tailed) | | .000 |
| | N | 97 | 97 |
| Innovativeness | PearsonCorrelation | .354* | 1 |
| | Sig.(2-tailed) | .000 | |
| | N | 97 | 97 |

**.Correlationissignificantatthe0.01level(2-tailed).

ThePearsoncorrelationwasusedtodeterminetherelationshipbetweeninnovativenessonperformance.Asindicated in Table 2, the correlation coefficient was 0.354 with p –value of 0.000 which was found to be significant at 5% significancelevel.Thisimpliesthatthereexistsastrongpositiverelationshipbetweeninnovativenessonperformance. Anincreaseininnovativenesswillleadtoanincreaseinperformance.Thismeansthat,ifinnovativenessisimproved by a unit, the level of performance would improve by 0.354 units. Therefore, the null hypothesis that stated innovativeness has no statistically significant influence on performance of food and beverage manufacturing enterprises in Nairobi city county was rejected.

**MultipleLinearRegression**

A multiple linear regression was used to examine the relationship between innovativeness and performance. Results were represented in Table 3a, b and c.

Table36a:SummaryofregressionmodelforInnovativeness

| | | | | | ChangeStatistics | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Model | R | RSquare | AdjustedR Square | Std. Error of the Estimate | RSquare Change | FChange | df1 | df2 | Sig. F Change | Durbin-Watson |
| 1 | .354[a] | .125 | .116 | .5996 | .125 | 13.631 | 1 | 95 | .000 | 2.026 |

a. Predictors:(Constant),innovativeness
b. DependentVariable:performance.

Results inTable3ashowsthe modelexplanatorypower as measured using Rsquared (coefficientofdetermination). TheRsquaredis0.125.Thisimpliesthatinnovativenessexplains12.5%ofthevariationonperformanceoffoodand beverage manufacturing enterprises while the remaining 87.5% can be explained by other factors excluded in the model.

Table3b:AnalysisofvarianceforInnovativeness

| Model | | SumofSquares | Df | MeanSquare | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 4.900 | 1 | 4.900 | 13.631 | .000[b] |
| | Residual | 34.151 | 95 | 0.359 | | |
| | Total | 39.051 | 96 | | | |

a.DependentVariable:performance

c. Predictors:(Constant),innovativeness

Results on Table 3b, shows the results of analysis of variance (F=13.631, p=0.000). The P value is less than the acceptable level of 0.05. This indicates that the model testing the impact of innovativeness on performance was statistically significant. This means that the model is fit for prediction purposes.

Table3c:RegressionCoefficientforinnovativeness

| | Unstandardized Coefficients | | Standardized Coefficients | | | Correlations | | | Collinearity Statistics | |
|---|---|---|---|---|---|---|---|---|---|---|
| Model | B | Std. Error | Beta | t | Sig. | Zero-order | Partial | Part | Tolerance | VIF |
| 1 (Constant) | 2.379 | .492 | | 4.832 | .000 | | | | | |
| Innovativeness | 0.446 | .121 | .354 | 3.692 | .000 | .354 | .354 | .354 | 1.000 | 1.000 |

Results in Table 3c show the regression coefficients which indicate that, there is a positive and significantly linear association between innovativeness and performance (B = 0.446, p value = 0.00). This means that a unit increase in innovativenessboostsperformanceby0.446units.Theresearchdiscoveredaconstantof2.379withaslopeof0.446. The t-statistic was 4.382, with a P value of 0.000 indicating that the relationship is significant. The equation below depicts the simple regression model for innovativeness.

$$Y=2.379+0.446X1$$

Asaresultofthe findings,the null hypothesisstatingthatinnovativenesshas nostatisticallysignificantinfluenceon performance of food and beverage manufacturing enterprises in Nairobi City County was rejected.

**DISCUSSION**

The objective ofthisstudy was to examine the influence ofinnovativeness onthe performance offood and beverage manufacturingenterprises in NairobiCityCounty.Descriptiveanalysisrevealed that majorityof them haveplaced a strong emphasis on innovative processes, regularly introducing new products and services as well as adopting new technology.However,onlyasmallpercentagesupportdevelopmentofnewtechnologyandconductmarketresearch.

Correlation analysis revealed a positive and significant relationship between innovativeness and performance. Similarly,regressionanalysisshowedapositiveandsignificantrelationshipbetweeninnovativenessandperformance whereby,innovativenessexplained12.5%ofthechangesinperformance.Inordertorealizegoodperformancewhich issustainable,anorganizationmustcomeupwithinnovativestrategiesthat willensurethattheycontinuallyimprove ontheirproductsaswellascomeupwithnewupdatedones.Theymustalsobuythetechnologythatismostefficient, effective and cost cutting so as to give their customers quality goods and services.

**CONCLUSION**

Thestudyconcludedthat,thereispositiverelationshipbetweeninnovativenessandperformance.Innovativenessisa criticalentrepreneurialtraitthathasapositiveand significantimpactonperformance.Innovativenessisacompany's capacity to embrace fresh concepts and creative processes that may result in new products, markets or technical procedures. Entrepreneurship cannot exist without innovation, which is a critical component of strategy. Innovation plays a vital role in resolving corporate difficulties and challenges regardless of market volatility, allowing organizations to prosper. Therefore, it is important to examine the innovativeness employed by food and beverage manufacturingenterprises.Theyshouldadoptmeasuresaimedatgatheringknowledgeandadoptingtechnologiesthat are geared towards developing new products, improving customized products, enhancing customer satisfaction and lowering the production costs.

**RECOMMENDATIONS**

Foodandbeveragemanufacturingenterprisesshouldassesstheirabilitytoembracenewideasandprocessesthatwill lead to development of new products, services, markets or technologies. Innovativeness plays an essential role in doing away with challenges associated with their businesses. As a result, the study advised that food and beverage manufacturing companies prioritize the innovation process in their organizational strategy today more than ever. Shorter product life cycles, increased client tastes, preferences and expectations, as well as fierce competition force organizations to constantly innovate in order to remain competitive.

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