African Journal of Emerging Issues
Peer reviewed | Double blind | Interdisciplinary

African Journal of Emerging Issues (AJOEI)
Online ISSN: 2663 - 9335
Available at: https://ajoeijournals.org

STRATEGIC MANAGEMENT

Influence of Strategic Innovation on Performance of Manufacturing Firms in Kenya: A Literature Based Review

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Abstract

Purpose of the Study: This study sought to find out the effect of strategic innovation on manufacturing firm's performance. Strategic innovation is an important factor for organization, sustainable competitive advantage and financial performance. Many changes and an increasingly turbulent environment have characterized the manufacturing industry in Kenya. Many changes and an increasingly turbulent environment have characterized the manufacturing industry in Kenya. Thus, many large manufacturing firms have relocated or restructured their operations opting to serve the local market through importing from low-cost manufacturing areas such as Egypt, South Africa and India therefore resulting in job losses. This is an indication that many manufacturing firms in Kenya are experiencing performance challenges with many reporting profit warnings due to challenges in the operating environment. The study adopted Stakeholder Theory.

Methodology: The paper used a desk study review methodology where relevant empirical literature was reviewed to identify main themes. A critical review of empirical literature was conducted to establish the influence of strategic innovation on performance of manufacturing firms in Kenya. Product innovation, process innovation, market innovation and technology innovation strategies had a positively and significantly impact performance among manufacturing firms.

Conclusion: The study concluded that key firm performance areas had considerably and positively grown improved, attributed to a considerable extent to the adoption of the strategic innovation strategies including market innovation strategies and product innovation strategies.

Recommendation: The study recommends that he manufacturing firms should invest more in research and development to be able to innovate more. Secondly, human resource strategies should be adopted those that will make the employees feel as a part of the management. Employees should be also be involved in all levels of strategies development and innovation encouraged and rewarded. Channels should be put in place to ensure that information can flow freely and employees" opinions captured. Strategic innovations should be encouraged and firms should continuously look for superior products, processes, adoption of technology and market innovations for competitive advantage.

Keywords: *Strategic Innovation, Performance, Manufacturing Firms & Kenya.*

1.1 Introduction

Strategic innovation is an important factor for organization, sustainable competitive advantage and financial performance (Nybakk & Jenssen, 2012). Strategy innovation is seen as capable of creating organizational direction by charting the course of the firm's effort, by focusing the effort through promoting coordination, by providing people with an easy way to understand the organization and by providing consistency and reducing ambiguity (Mintzberg, Ahlstrand & Lampel, 2009). A strategy is a plan that provides an organization with the intended course of action and also serves as a guide when dealing with situations (Lusweti, 2009). A strategy is about creating a niche which will generate sufficient revenue to enable an organization outsmart its competitors. A good strategy is one that actually generates a competitive advantage that differentiates an organization with its competitors by giving it sustainable edge that is valuable, rare and not easy to imitate (Jin, Hewitt & Thompson, 2014). Strategy should be unique in order to create a competitive advantage (Porter, 1990). Innovation is the application of better solutions that meet new requirements or existing market needs. Innovation is accomplished through having more effective products, processes, services, technologies, or ideas that are readily available to markets, governments and society.

Strategic innovation is one of the fundamental instruments of growth strategies to enter new markets, to increase the existing market share and to provide the company with a competitive edge (Nybakk & Jenssen, 2012). Motivated by the increasing competition in global markets, companies have started to grasp the importance of strategic innovation, since swiftly changing technologies and severe global competition rapidly erode the value added of existing products and services. Thus, strategic innovations constitute an indispensable component of the corporate strategies for several reasons such as to apply more productive processes, to perform better in the market, to seek positive reputation in customers" perception and as a result to gain sustainable competitive advantage. Innovations provide firms a strategic orientation to overcome the problems they encounter while striving to achieve sustainable competitive advantage (Hitt, Ireland, Camp & Sexton, 2001).

Firms' performance refers to a firm's ability to generate new resources from day to day operations over a given period of time. Within corporate performance, the focus has always been on the financial side; hence, it is traditionally defined in financial terms (Venkatraman & Ramanujam, 2016). Profitability is the main financial measure used to determine organization performance since it is an indicator of both efficiency and effectiveness of organization operations (Bora & Bulut, 2008).

In Kenya, the strongest subsectors in formal manufacturing are agro-industry (food and beverages), textiles in the Export Processing Zones (EPZs), and pharmaceuticals, sectors related to construction, such as cement and metals, and high-end furniture. According to Kenya Institute of Public Policy and Analysis (KIPPRA), for the last five years, an average growth in real terms in manufacturing has been about 3.4%; food and beverages has been growing at about 6% and non-food has been growing at about 2%. Kenya Association of Manufacturers promotes trade, investment, and standards and encourages the formulation, enactment and administration of sound policies that facilitate a competitive business environment and reduce the cost of doing business (KAM, 2016).

1.2 Statement of the Problem

The reason why organizations in the same industry and markets differ in their performance remains a fundamental question within strategic management circles. There is no conclusive established framework that completely explains the source of variation in organizational performance. While Studies have established a direct relationship between strategy and performance, the influence of strategic innovation has not been investigated. In addition, the difference in financial performance of manufacturing firms remains to generate questions.

Firms in the manufacturing industry in Kenya are operating in increasingly competitive, highly regulated and dynamic market and therefore they have to formulate strategies to ensure their survival (Otieno, Bwisa & Kihoro, 2012). Many changes and an increasingly turbulent environment have characterized the manufacturing industry in Kenya (KMA, 2018). Thus, many large manufacturing firms such as Colgate Palmolive, Reckitt Benckiser, Cadbury Kenya, Bridgestone, Devki Steel and Procter & Gamble have relocated or restructured their operations opting to serve the local market through importing from low-cost manufacturing areas such as Egypt, South Africa and India therefore resulting in job losses (Nyabiage & Kapchanga, 2014). This is an indication that many manufacturing firms in Kenya are experiencing performance challenges with many reporting profit warnings due to challenges in the operating environment (RoK, 2015). Statistics from World Bank show that manufacturers operate in Kenya registered stagnation and declining profits for the last five years due to a turbulent operating environment (WB, 2015).

Strategic innovation is considered as critical requirement for the growth and profitability of organizations. It has a considerable impact on corporate performance by producing an improved market position that conveys competitive advantage and superior performance (Walker, 2004). Study by Gebauer, Worch and Truffer (2012) found that strategic innovation enhances competitiveness, overall productivity and value maximization of the firm. The need for strategic innovation is more to private sector organizations operating in increasingly competitive market and in which case innovation is often a condition for survival (Tidd, Bessant & Pavitt, 2001). Therefore, this study sought to find out the effect of strategic innovation on manufacturing firms performance.

1.3 Objectives of the study

i. To examine the strategic innovations adopted by manufacturing firms in Kenya.
ii. To find out the effect of strategic innovations on performance of manufacturing firms in Kenya.

1.4 Research Questions

i. What are the strategic innovations adopted by manufacturing firms in Kenya?
ii. What is the effect of strategic innovations on performance of manufacturing firms in Kenya?

2.1 Literature Review

2.2 Theoretical Framework

2.2.1 Stakeholder Theory

Freeman (1984) proposed stakeholder theory in his seminal book. Stakeholder theory can be defined by two key aspects. Stakeholders are persons (or groups) with legitimate interests in the corporation and the interests of all stakeholders are of intrinsic value. This means that a firm's management is required to give simultaneous attention to the legitimate interests of all appropriate stakeholders, both in the establishments of organizational structures and general policies and in case by case decision making.

The importance of stakeholder theory is to examine how innovation takes place and how it should be undertaken (Lusweti, 2009). According to the theory, ever increasing pace of change and innovation and the increasing turbulence of the environment make it practically impossible for firms to innovate alone (Walker, 2004). As a result, there is clear need for firms to view themselves as a node in a network of firms that enable it to continually innovate. Stakeholder theory's contribution to the field of strategy is a richer perspective on the nature of the firm, ways managers think about strategic innovation and how board members think about the interests of corporate constituencies.

In relation to the topic, it requires the organization's management to recognize the interest of all stakeholders who include the shareholders and the employees. Stakeholders interests are maximized when the when the company makes profits and overall organization performance being good. To maximize the interests of various stakeholders, the theory view strategic innovations to be important. Adoption of strategic innovation leads to increased financial performance.

2.3 Empirical Review

Schumpeter (1934) defines product innovation as "the introduction of a new good; one which consumers are not yet familiar with, such a good has new/improved quality" (Schumpeter, 1939). He underscores the role of product innovation in spurring organizational growth. He further argues that competition resulting from new products far outweigh marginal variations in the price of existing products (Schumpeter, 1942). Product innovation is one of the sources of firm competitiveness that can be applied to improve the quality of products leading to improved firm performance and competitiveness (Sidek & Rosli, 2013). Product innovation also provides a variety of choice of a firm's products to the customers and greater perceived value as compared to the old products (Crawford *et al*., 2013).

Process innovations may include new or significantly improved equipment, techniques and software in auxiliary support activities, like purchasing, accounting, computing and maintenance. Such innovations can involve significant changes in the equipment and software used in services-oriented firms or in the procedures or techniques that are employed to deliver services. Process innovations are intended to decrease unit costs of production or delivery, to increase quality, or to produce or deliver new or significantly improved products.

Marketing innovation is the implementation of a new marketing method that involves significant changes in product design or packaging, product placement, product promotion or pricing" (OECD, 2015). New marketing methods can either be developed by the innovating firm or adopted from other firms or organizations and can be implemented for both new and existing products. Marketing innovations include significant changes in product design that are part of a new marketing concept; changes in the packaging of products, product placement primarily involve the introduction of new sales channels (OECD, 2015).

Organizational innovation involves the implementation of new organizational methods in the firm's business practices, workplace organization or external relations" (OECD, 2015). These include the "implementation of new methods for organizing procedures and routines for the conduct of work, introduction of management systems, business re-engineering, lean production, and quality-management system, implementation of new methods for allocating responsibilities and implementation of new ways of organizing relations with external firms /institutions

Kombo, K'Obonyo and Ogutu (2015) conducted a study on knowledge strategy and innovation in manufacturing firms in Kenya. The study adopted cross-sectional survey research design. The target population comprised of 655 manufacturing firms in Kenya. A stratified sample of 266 firms representing twelve subsectors of manufacturing sector was used. Primary data was collected from 184 firms using structured questionnaire administered to the managers of the firms. The results show that knowledge strategy has a positive and significant effect on innovation activities of the firms. It is concluded that higher levels of knowledge strategy would result in higher organizational innovation.

Kiveu (2017) investigated the effect of innovation on firm competitiveness while the specific objectives of the study were; to establish the effect of product innovation on firm competitiveness, to analyze the effect of process innovation on firm competitiveness; to assess the effect of marketing innovation on firm competitiveness; to determine the effect of organizational innovations on firm competitiveness; to examine the combined effect of process, product, marketing and organizational innovations on firm competitiveness and lastly to investigate the moderating effect of firm size on innovation in Nairobi county. A sample of 284 enterprises from three industrial Clusters; Industrial area, Ruaraka/babadogo and kariobangi /outering/ the area off

Mombasa and airport road was drawn. The main instrument of data collection was a semi-structured questionnaire administered to the owner/ manager of the enterprises. Descriptive and inferential statistics were used to analyze data. Multiple Linear regression model was used to analyze relationships and the effect of innovation on firm competitiveness. Study findings reveal that all the four types of innovation; product, process, marketing and organizational had positive effect on competitiveness. However, product innovation had insignificant effect (β=0.19, p=0.834> 0.05) while process (β=0.306, p=0.001< 0.05), Marketing Innovation (β=0.205, p=0.021< 0.05), Organizational innovation (β=0.194, p=0.033< 0.05) and combined Innovation (β=0.521, p=0.000< 0.05) had significant effect on firm competitiveness. The study also revealed that firm size had significant moderating effect on the innovation and competitiveness relationship. The study recommends that manufacturing firm's practitioners consider implementing innovations to enhance their competitiveness, especially innovations with higher novelty that are new to the market, industry, country or the world.

Gakure, et al. (2013) carried out a study on the Role of innovation in Kenyan Electrical and electronic manufacturing enterprises using multivariate linear regression analysis. Their results revealed a significant positive relationship between innovation and firm competitiveness. The study results also indicated that R&D, Human Capital and learning/knowledge sharing contributed significantly to innovation. Najib (2013) carried out a study on the internal sources of competitiveness in small and medium Indonesian food processing companies. In the study, he examined the potential of market orientation and innovation as sources of competitiveness in food processing firms. Competitiveness in the study was represented by business performance. Business performance was operationalized as a composite variable of three measures; sales volume, profitability and market share. Research findings indicate that innovation had positive effects on competitiveness of firms. They concluded that innovation was one of the most important factors that can be used to enhance competitiveness.

Njogu (2014) in her study of the effect of Innovation on the financial performance of manufacturing firms in Nairobi found that product, process and marketing innovation have positive significant effects on financial performance of manufacturing firms in Nairobi, county. Aziz and Samad (2016) in their study to "examine the effect of Innovation on the competitive advantage of food manufacturing firms in Malaysia" revealed that innovation had a strong positive impact on manufacturing firms competitive advantage, in which innovation contributed 73.5% of the competitive advantage. The study also found some moderating effect of firm age on the Innovation- competitive advantage relationship

Afful and Owusu (2017) sought to identify the type and drivers of innovation with special reference to the manufacturing sector of Kenya. This study employed Probit regression model on the 2013 Kenya Enterprise Survey and the 2014 Kenya Innovation Follow-Up Survey. The results showed that market innovation is the predominant type of innovation among the manufacturing firms in Kenya. Product innovation and process innovation were found to be driven by internal R&D. It was also discovered that organizational innovation is positively driven by the age of the firm, training of production staff and internally installed internet. We further found that female top managers, internal R&D, training of production staff and internally installed internet drive market innovation. In order to aid the innovation activities, government should subsidize internal R&D activities and companies should engage in constant training of production staff in the manufacturing firms.

Kariuki (2014) examined the effect of strategic innovation on the performance of mobile telecommunication firms in Kenya. The study used descriptive research design in data collection and analysis. The study found out that strategic innovation has positive effect on organizational performance. Adoption of superior strategies relating to products, services, marketing processes and human resources led superior organization performance. The study recommend that mobile telecommunication firms should invest more in research and development to be able to innovate more and adopt more innovative strategies to improve their performance.

Mbogori, Gichohi and Moguche (2018) examined the effect of product innovation on performance of the cement-manufacturing firms in Kenya. It adopted a descriptive research design. The target population was all the department heads in all the cement-manufacturing firms in Kenya. All the 79 department heads participated in the study. The correlation results indicated that there is a significant positive association between product innovation and performance of the cement manufacturing companies in Kenya, ($r = 0.544$, $P = 0.000$). Regression results also indicated a significant relationship, ($R2 = 29.6\%$, $P = 0.000$). The null hypothesis (H_{01}) was rejected since the p-value was $0.000<0.05$. The study concluded that there is a positive and significant effect of product innovation on performance of the cement-manufacturing firms in Kenya. Results have implications on technical specifications of products, product research and development, customer-centric product features, and enhancement of the existing products in all the cement-manufacturing firms in Kenya.

Mbugua Wamitu and Kinyamun (2017) sought to establish whether strategy forecasting has a relation with the manufacturing firms' performance in Kenya through the case of Central Kenya region. The research adopted a descriptive survey research design. The study used questionnaires as the tools for data collection. In the study, all (110) questionnaires were administered to the sampled respondents with 82% response rate. The study concluded that business trends strongly affect the performance of manufacturing firms in central Kenya. This was because items on business trend like management capacity to analyze trends, company reputation, sales trends and technological development trend had much relationship on firm performance. Seasonal trends affect firm performance. The study recommended that there is need to sensitize the staff in the manufacturing firms on the strategic goals in relation to forecasting. The study also recommended that management of the manufacturing firms should also factor seasonal variations which were found lowly relating on firm performance and that management should invest in capacity building.

According to Mutunga (2017), the performance and contribution of the Kenyan manufacturing firms to the economy has been worrying especially in the wake of realizations that other sectors of the economy such as real estate and telecommunications have surpassed it on the contribution to the GDP. In Kenya, Manufacturing share of total Kenyan economic output has stagnated at 10 with a declining contribution to total wage employment. It is this fact that necessitated an enquiry on the role of micro factors on the financial performance of manufacturing firms in Kenya. The specific objectives of his study were; examine the relationship between production capacity and firm financial performance; to establish the relationship between management practices and firm financial performance, to determine effect of operations practices and firm financial performance, and to establish the moderating effect of firm size on micro factors on firm's financial performance. The results of the study show a statistically positive and significant direct relationship between micro factors on firm financial performance. The results show that relationship between micro factors and firm financial performance is moderated by firm size.

Terziovsi (2010) augment the importance of organizational innovation by arguing that organizational standards are very important and an improvement will have positive effect on the organization because they enhance the clarity of the employee roles leading to commitment, involvement and organizational effectiveness. According to Teece (2009), organizational innovation is not only an important form of creating value in enterprises but also an important form of capturing value, hence important for firm performance and competitiveness. Organizational innovation increases a firm's performance by reducing administrative/ transaction costs (OECD, 2015). However, Atalay *et al.* (2013) found no evidence of a positive significant relationship between organizational innovation and firm performance.

2.4 Conceptual Framework

The Conceptual framework provides a diagrammatical illustration that shows the connection between the independent and dependent variables (Kothari, 2006). The figure below depicts the relationship between innovation strategies and performance of manufacturing firms as shown ion Figure 1.

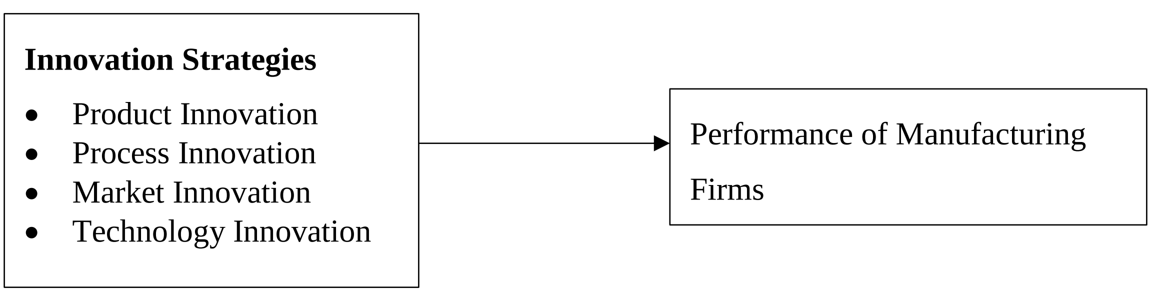

Figure 1: Conceptual Framework

3.0 Research Methodology

The study established the influence of strategic innovation on performance of manufacturing firms in Kenya. The paper used a desk study review methodology where relevant empirical literature was reviewed to identify main themes. A critical review of empirical literature was conducted to establish the influence of strategic innovation on performance of manufacturing firms in Kenya.

4.0 Results and Discussion

From the empirical review, it can be deduced from the findings that key firm performance areas had considerably and positively grown improved, attributed to a considerable extent to the adoption of the strategic innovation strategies including market innovation strategies and product innovation strategies. Market innovation strategies and Product innovation strategies also collectively explained of the variations in the Performance. Strategic innovation, as indicated by Market innovation strategies and Product innovation strategies positively and significantly impact performance among manufacturing firms. Innovation is a key factor in addressing most of the unfavorable competitions that local manufacturing firms face from their foreign rivals. Product, process, marketing and technological had positive effect on competitiveness. Product innovation, process innovation, market innovation and technology innovation strategies had a positively and significantly impact performance among manufacturing firms. The age of the firm, internal R&D, training of production staff, internally installed internet, and internal R&D via the internally installed internet are important discriminants among innovative and non-innovative manufacturing firms in Kenya.

5.0 Conclusions

Key firm performance areas had considerably and positively grown improved, attributed to a considerable extent to the adoption of the strategic innovation strategies including market innovation strategies and product innovation strategies. The study thus sought to find out the individual contribution of the foregoing innovation strategies to the observed firm performance. Product innovation, process innovation, market innovation and technology innovation strategies had a positively and significantly impact performance among manufacturing firms. Of the innovation that had a significant effect on performance, process innovation had the highest impact on performance, followed by marketing and technological innovation. The study concludes that implementation of process, marketing and technological innovations results in an increase in firm performance. Manufacturing firms can therefore improve their performance by implementing the different types of innovations. The combined effect of the four innovation types was higher than for each individual innovation type hence firms are better of implementing different types of innovations as compared to any one type of innovation.

6.0 Recommendations

In line with the findings, the study makes the following recommendations; the manufacturing firms should invest more in research and development to be able to innovate more. Secondly, human resource strategies should be adopted those that will make the employees feel as a part of the management. Employees should be also be involved in all levels of strategies development and innovation encouraged and rewarded. Channels should be put in place to ensure that information can flow freely and employees‟ opinions captured. Strategic innovations should be encouraged and firms should continuously look for superior products, processes, adoption of technology and market innovations for competitive advantage. Lastly, innovation strategies alone are not sufficient to lead to competitive advantage but the emphasis on innovation strategies could lead to sustainable competitive advantage in some cases or may lead to competitive survival.

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