

INFLUENCE OF ENTREPRENEURIAL INNOVATIVENESS ON THE GROWTH OF YOUTH OWNED ENTERPRISES IN KENYA

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ABSTRACT

Background: Youth enterprises play a key role in poverty alleviation and if they are ran based on entrepreneurial management skills. Despite their significance, statistics however show that in Kenya, three out of five of the youth run small enterprises fail within the first three years of operation, and those that continue 80 percent fail before the fifth year. This study sought to investigate the effect of entrepreneurial innovativeness on the growth of youth owned enterprises in Kenya.

Methodology: The target of the study included 397 youth led micro and small enterprises in Kenya. The research design used followed a cross sectional survey. Data was analyzed using descriptive statistics, correlation and linear regression analysis.

Results of the Study: The findings indicated that entrepreneurial innovativeness ($\beta=.302$, $P < .000$) had a positive and significant influence on the growth of youth owned enterprises in Kenya. The study concluded that creativity and innovativeness contribute positively to the growth of youth owned enterprises in Kenya.

Recommendations: The study recommends that owners of youth enterprises should strengthen aspects relating to entrepreneurial innovativeness including introduction of new products, implementation of improved processes and provision of quality and unique services.

Keywords: *Entrepreneurial Innovativeness, Growth, Youth Owned Enterprises*

INTRODUCTION

Enterprise growth is one of the central issues of entrepreneurship alongside innovation and venture creation. Understanding how micro and small sized enterprises grow is one of special interest since it is the medium-sized, growth-oriented enterprises that make most tangible contribution to economic growth and job creation. In line with that, studying enterprise growth provides insights into the market dynamics, competitive landscape of SMEs world, and perhaps even the growth of national economy (Sarlija, Pfeifer, & Jeger, 2016). An entrepreneurship venture is successful if it is growing. Growth has various connotations. It can be defined in terms of revenue, generation, value addition, and expansion in terms of volume of the business. It can also be measured in the form of qualitative features like market position, quality of product, and goodwill of customers. As stated earlier, growth is a vital indicator of a flourishing enterprise. There are many factors such as characteristics of the entrepreneur, access to resources such as finance and manpower which affect the growth of the enterprise and differentiate it from a non-growing enterprise. It has been highlighted that growth is a function of a decision an entrepreneur makes, like how to grow internally or externally and where to grow in domestic or international market (Lorunka, 2016).

STATEMENT OF THE PROBLEM

Kenya Youth Development Policy (2018) defines “youth” as a person aged 18 years and who has not reached the age of 35 years (Kenya Constitution, 2010). Further, the policy directs that the term “youth” not to be used interchangeably with other terms such as young people, young person, young women or young men; terms which are relative, ambiguous and normally misdirect focus from the real youth. The policy uses the term youth to refer to both age and youth-hood. With respect to age, a youth is defined as a person, male or female, in the age bracket of 18-34 years; while youth-hood is looked at as a specific stage between childhood and adulthood when people have to negotiate a complex interplay of both personal and social-economic changes to maneuver the transition from dependence to independence, take effective control of their lives and assume social commitments (RoK, 2018). There is convincing evidence that the growth of entrepreneurship in Kenya has led to increase in the number of SMEs in Kenya. The SMEs play a key role in the economic development and contribute significantly to employment and poverty reduction among the youth in the country. Despite their significance, statistics show that in Kenya, three out of five of the youth run small enterprises fail within the first three years of operation, and 80 percent of those that continue fail before the fifth year (Mutuma, 2015).

The government of Kenya established the Youth Enterprise Development Fund (YEDF) to promote employment creation especially through enterprise development by the youth. The journey to success, however, had to surmount a number of challenges such as inadequate funding, limited entrepreneurial culture among the youth, and high default especially from financial intermediaries (RoK, 2016). Also there are urging problems such as lack of entrepreneurs proactive actions, lack of long-term planning of products, operations, competition, inability to change in new ideas and creative process, lack of intension to leave comfortable position to pursue novel ideas, failure to have competitive advantage over the competitors, lack of customer retention, low growth and profits rate which restricts entrepreneurs from contributing maximally to the growth of the small and medium scale enterprise (Ayeni-Agbaje & Osho, 2015). Despite these efforts by the government towards enabling youth participation in realization in enterprise development, only 20 percent of the youth owned enterprises exist for the last five years in operation.

Recent statistics in Kenya indicated that those under the age of thirty-five form 80% of the country's population. The writers further explained that employment rates were lowest among those without post-secondary education at 15%. By comparison, 32% of those with post-secondary education were unemployed. They concluded that 1 in 2 graduates were unemployed and only 1 in 5 youth with university degrees were in self-employment (Alex & Bruce, 2016). Franklin (2017) explains that currently in Kenya out of the working age population of 24 million, one in every six young Kenyans is unemployed. This indicate that many young people have not fully embraced entrepreneurship as an alternative source of employment. Considering the significance of SMEs in Kenya, the study therefore investigates the entrepreneurial management skills and the growth of youth owned enterprises in Kenya.

RESEARCH HYPOTHESIS

H₀: Entrepreneurial innovativeness does not have significant relationship with the growth of youth owned enterprises in Kenya.

THEORETICAL FRAMEWORK

Schumpeter Theory of Innovation (1932)

According to Joseph A. Schumpeter (1932) an innovation is nothing but new combinations of factors of production which necessarily breaks the monotonous cycle of economic and market activities. According to him, entrepreneurs is one who breaks the stationary circular flow of activities and market supply and creatively destructs. Only this process has the maximum level of risk which is not bear by traditional businessmen. According to him, entrepreneurs is one who is engage in creative activity. The innovator who brings/commercializes new products and services is known as entrepreneur. He keeps on looking for new ways and new combination to use the factors of production and focuses on novelty in market offerings. Society owns a lot of these innovators, who assume risks and uncertainty to provide newer/fresher and ground breaking products. According to Schumpeter the basic nature and scope of innovation by entrepreneurs are not necessarily means introduction of newer products, but sometimes means more than that. According to him, the nature and scope includes; 1) The introduction of a new product with which consumers are not yet familiar or introduction of a new quality/modification of an existing products which changes the product or its usability for consumers, 2) The introduction of new ways of production that is not yet used/experienced in the branch of manufacture concerned, 3) The opening of new market either by developing a brand new market or revamping the old market with huge potential, 4) Developing a new source of supply of raw material, and 5) The carrying out of a new organization structure of any industry (Shekhar & Priyanka, 2018).

Schumpeter argued that anyone seeking profits must innovate. That will cause the different employment of economic systems, existing supplies of productive means. He believed that innovation is considered as an essential driver of competitiveness and economic dynamics. He also believed that innovation is the centre of economic change causing gales of creative destruction which is a term created by Schumpeter in Capitalism and Democracy. According to Schumpeter innovation is a process of industrial mutation, that incessantly revolutionizes the economic structure from within, increasingly destroying the old one, incessantly creating a new one. Innovations are essential to explaining economic growth and the entrepreneur is the central innovator. In other words, innovation is the creative destruction that develops the economy while

the entrepreneur performs the function of the change creator. Typical characteristics of entrepreneurs are: intelligence alertness, energy and determination. Entrepreneurship is innovation and the actualization of innovation (Karol, 2013). This theory is related to the independent variable of entrepreneurial innovativeness is concerned with the work required to make an idea viable.

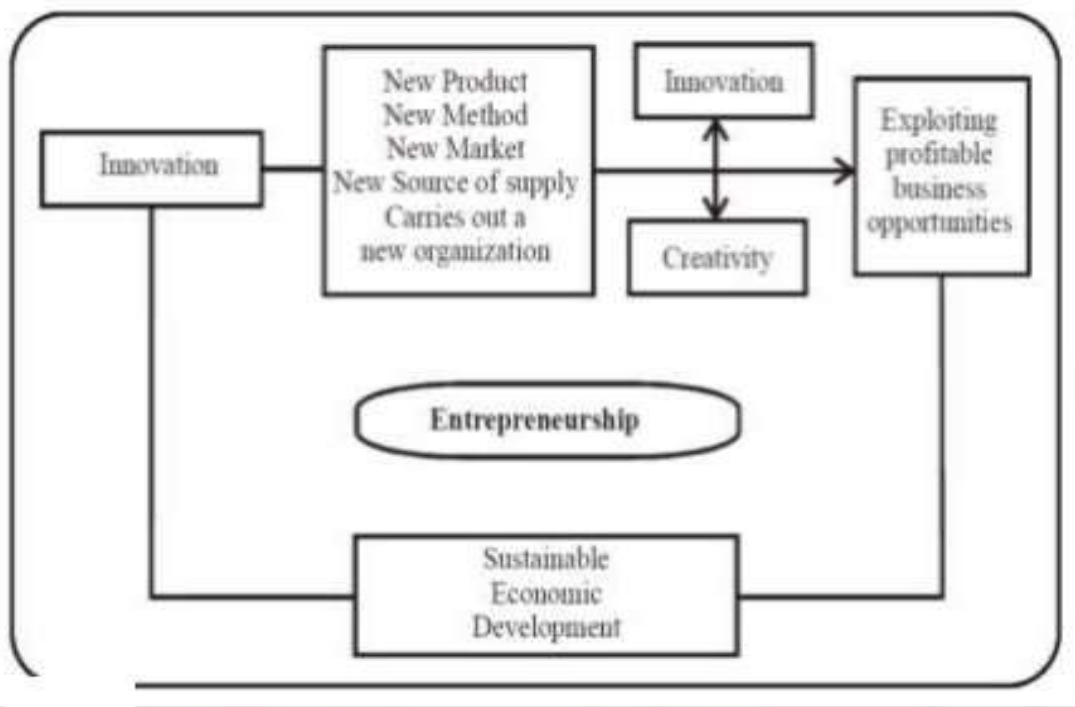


Figure 1: A Model of Innovation Theory of Entrepreneurship (Shekhar & Priyanka, 2018)

EMPIRICAL REVIEW

A study by Majid, Ismail and Cooper, (2011) attempted to explore the extent of what the entrepreneurial management approach is being adopted by the sample firms. Based on the global measure of entrepreneurial management, the results suggest that a large majority of the firms may be classified as entrepreneurial.

Locally, Walobwa, Ngugi, and Chepkulei (2013) conducted a study on effects of the type of innovation on the growth of small and medium enterprises in Kenya. The study analysed the type of innovation practiced by SMEs in Kenya from integrated perspective of its effect on growth of garment enterprises in Nairobi County. The study found out that majority of the respondents had introduced new changes in their products, processes or service technology. The result showed that majority of respondents believed that technological innovation influenced sales turnover by attracting new customers, technological innovation is a positively correlated with other type of innovation practiced by garment SMEs in Jericho Market, Results showed that all type of innovations was affected by technological innovation including the growth of the business.

The study sought to establish the relationship between entrepreneurial management and quality of service in youth enterprises and the skills youth entrepreneurs have acquired in their business initiatives. The level of education did not have a direct influence on ability to introduce new products and entry into new markets. A study by OECD (2017) concluded that advanced

knowledge-intensive skills and converging skills are more important to innovation than basic skills.

Conceptual Framework

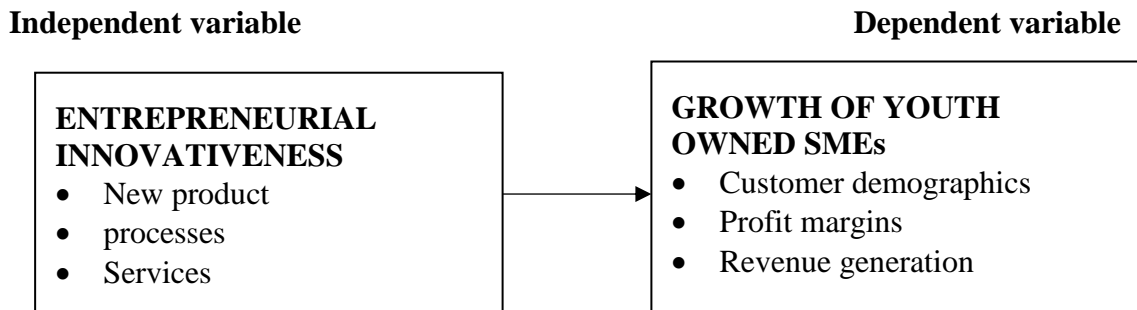


Figure 2: Conceptual Framework

RESEARCH METHODOLOGY

The target of the study included 397 youth led micro and small enterprises in Kenya. The research design used followed a cross sectional survey strategy combining both qualitative and quantitative research approaches. Quantitative data was collected using questionnaires consisting of closed questions. Research assistants delivered the questionnaires to the respondents. Data analysis was done using Statistical Package for Social Sciences (SPSS) version 23 software. Linear regression and correlation analysis was performed in order to answer the research questions and meet the research objectives.

RESULTS AND DISCUSSIONS

Descriptive Analysis on Entrepreneurial Innovativeness

The respondents were requested to express their opinion in regard to statements on entrepreneurial innovativeness. The Likert Scale applied was as follows: (1- strongly disagree, 2-disagree, 3- neutral, 4- agree, and 5- strongly agree). The findings indicate that 88.6% of the respondents agreed with the assertion that they regularly introduce improvements on existing products, they have developed new product designs which are unique to the business, 77.8%, regularly improve on the production process, 80.2%, have always sought to target new markets with uniquely priced products, 93.1% and the pricing of the products and services depends on the life style of customers, 72.3%.

The respondents also agreed that every product in the business has a price tag, 76.8%, the repeat buyers are the best advertising tool for the business, 90%, always feel disappointed due to the product failing to attract potential buyers, 74.7%, have segmented the market depending on their occupation, 57.1% and always remain in the same business and target only the existing markets, 55.1%.

The aggregate mean of 4.0 indicated that most of the respondents agreed with the statements on creativity and innovativeness. The overall standard deviation of 1.2 denoted that the responses were close to each other. This implies that there was a general agreement by most respondents on statements relating to entrepreneurial innovativeness. The descriptive results are illustrated in Table 1.

Table 1: Descriptive statistics of Entrepreneurial Innovativeness

Statements	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std. Dev
I regularly introduce improvements on existing products.	0.3%	3.5%	7.6%	37.4%	51.2%	4.4	0.8
I have developed new product designs which are unique to my business	3.1%	2.8%	16.3%	27.3%	50.5%	4.2	1.0
I regularly improve on the production process.	3.8%	1.4%	14.5%	27.3%	52.9%	4.2	1.0
I have always sought to target new markets with uniquely priced products	2.1%	1.4%	3.5%	30.8%	62.3%	4.5	0.8
The pricing of my products and services depends on the life style of customers	16.6%	6.9%	4.2%	25.6%	46.7%	3.8	1.5
Every product in my business has a price tag	5.2%	6.9%	11.1%	29.4%	47.4%	4.1	1.2
My repeat buyers are the best advertising tool for my business	2.1%	2.8%	5.2%	23.2%	66.8%	4.5	0.9
I always feel disappointed due to my product failing to attract potential buyers	7.3%	6.2%	11.8%	18.3%	56.4%	4.1	1.3
I have segmented my market depending on their occupation	25.6%	5.9%	11.4%	20.8%	36.3%	3.4	1.6
I always remain in the same business and target only the existing markets.	24.2%	9.7%	11.1%	21.5%	33.6%	3.3	1.6
Aggregate mean						4.0	1.2

Descriptive Analysis on Growth of Youth SMEs

The respondents were requested to give their opinion on statements relating to growth of youth SMEs. The Likert Scale applied was as follows: (1- strongly disagree, 2-disagree, 3-neutral, 4-agree, and 5- strongly agree). The findings reveal that most of the respondents agreed that their aim is to delight customers by promising on what I can deliver (89.3%), always ensure that the product/services are extremely convenient to customers, 83%, always recommend the business representatives to answer questions from customers appropriately, 78.2%, working for 7 days a week without closing the business has increased sales volume, 79.9% and always look forward to maintain good relationship with repeat buyers, 89.3%.

The respondents further agreed that sustaining quality of product and services and affordable prices have led to stable sales, 86.9%, continued acceptance of the products and services have increased the size of the market, 86.5%, new product development has led to the increase of market and sales, 86.9%, favorable and affordable prices for the products have enabled the business to

penetrate the market with ease, 87.9% and using own sales people has increased the market segment of the business, 79.2%.

The aggregate mean of 4.3 indicated that most of the respondents agreed with the statements on growth. The overall standard deviation of 1.1 revealed that the responses were close to each other. This implies that there was a general agreement by most respondents on statements relating to growth. The descriptive results are illustrated in Table 2.

Table 2: Descriptive Statistics of Growth of Youth SMEs

Statements	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std. Dev
My aim is to delight customers by promising on what I can deliver.	2.8%	6.9%	1.0%	29.1%	60.2%	4.4	1.0
I always ensure that the product/services are extremely convenient to customers.	3.5%	6.6%	6.9%	26.6%	56.4%	4.3	1.1
I always recommend my business representatives to answer questions from customers appropriately.	5.9%	6.6%	9.3%	29.4%	48.8%	4.1	1.2
Working for 7 days a week without closing the business has increased sales volume.	8.3%	6.9%	4.8%	29.4%	50.5%	4.1	1.3
I always look forward to maintain good relationship with repeat buyers.	2.4%	4.8%	3.5%	26.3%	63.0%	4.4	0.9
Sustaining quality of product and services and affordable prices have led to stable sales.	3.5%	7.6%	2.1%	23.2%	63.7%	4.4	1.1
The continued acceptance of my products and services have increased the size of the market.	1.4%	7.3%	4.8%	29.4%	57.1%	4.3	1.0
New product development has led to the increase of market and sales.	3.8%	8.0%	1.4%	32.9%	54.0%	4.3	1.1
Favorable and affordable prices for my products have enabled the business to penetrate the market with ease.	3.1%	6.6%	2.4%	29.1%	58.8%	4.3	1.0
Using my own sales people have increased the market segment of my business.	3.5%	9.7%	7.6%	29.4%	49.8%	4.1	1.1
Aggregate mean						4.3	1.1

Business Growth in the Past Five Years

The respondents were asked to rate the extent to which their business growth has improved over the past 5 years. The scale used was as follows: 0-20% (1), 21-40% (2), 41-60% (3), 61-80% (4), and 81-100% (5). The findings in Table 3 indicate that majority of the respondents noted averagely,

their profits, number of customers and sales had improved by 0-20%. This was supported by overall means of 2. This suggested that the growth of youth owned SMEs was relatively low throughout the measurement period. Further, on average the annual expenses had increased by 0-20%.

Table 3: Improvement in Growth of Youth SMEs

Indicators	2015	2016	2017	2018	2019	Overall
Annual profits	2	1.91	2.02	2.08	1.97	2.00
Number of customers	2	1.96	1.95	1.97	2.07	1.99
Sales	2	1.97	1.92	2.04	1.98	1.98
Annual expenses	2.02	1.92	2.06	1.98	1.98	1.99

Correlation Analysis

This section provides results on the relationship between the independent and dependent variables. The results (Table 4) indicate that entrepreneurial innovativeness [X] had a positive and significant relationship with growth of youth enterprises, Y ($r = .352$, $p = 0.000 < 0.05$). This implies that both entrepreneurial innovativeness, and growth of youth enterprises move in the same direction. As such, an increase in entrepreneurial innovativeness is accompanied by increase in growth of youth enterprises. According to Sokolova (2015) creative problem solving gives that competitive edge that any business is striving to achieve.

Table 4: Correlation Results

	Y	X
Y	1	
X	.352** .000	1

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

Influence of entrepreneurial innovativeness on the growth of youth owned enterprises in Kenya

The study sought to determine the influence of entrepreneurial innovativeness on growth of youth owned enterprises in Kenya. The regression results (Table 5) indicate that entrepreneurial innovativeness explains 12.4% ($R^2 = .124$) of total changes in growth of youth enterprises. An F statistic of 40.646 and reported p value of $0.000 < 0.05$ imply that entrepreneurial innovativeness is a significant predictor of growth of youth enterprises. The results further indicate that entrepreneurial innovativeness had a positive and significant effect on growth of youth enterprises ($\beta = .302$, $P < .000$). This implied that an increase in entrepreneurial innovativeness by one unit would lead to increase in growth of youth enterprises by 0.302 units.

The study findings concurred with those of Walobwa, Ngugi, and Chepkulei (2013) who established that technological innovation influenced sales turnover by attracting new customers. Similarly, Bodas and Tunzelmann (2014) observed that there exists a direct positive relationship between innovation and creativity, and success of youth entrepreneurship.

The null hypothesis (H_0) predicted that creativity and innovativeness did not have significant relationship with the growth of youth owned enterprises in Kenya. A p value of 0.000 was less than 0.05 implying rejection of the null hypothesis in favor of the alternative. Therefore, entrepreneurial innovativeness had a significant relationship with growth of youth owned enterprises in Kenya.

Estimated model;

$$Y = 3.041 + 0.302X$$

Where; Y- growth of youth enterprises; X- entrepreneurial innovativeness

Table 5: Regression Model; Entrepreneurial Innovativeness and Growth of Youth SMEs

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	3.041	.193		15.722	.000
	Entrepreneurial innovativeness	.302	.047	.352	6.375	.000
	R Squared	.124				
	Adjusted R Squared	.121				
	F statistic	40.646				
	P value	.000				

a Dependent Variable: Growth of Youth SMES

CONCLUSION

The study established that creativity and innovativeness have a positive and significant influence on growth of youth owned enterprises. Consequently, the study concluded that entrepreneurial innovativeness contributes positively to the growth of youth owned enterprises in Kenya. The study identified key aspects of creativity and innovativeness that could be attributed to growth improvement. They included new products, processes and services.

RECOMMENDATIONS

The study found out that entrepreneurial innovativeness has a positive and significant influence on growth of youth owned enterprises. The owners of youth enterprises should further develop their creativity and innovativeness in order to remain relative in the current competitive market. The study recommends that owners of youth enterprises should strengthen aspects relating to entrepreneurial innovativeness including introduction of new products, implementation of improved processes and provision of quality and unique services.

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