INNOVATIVE MANAGEMENT AND GROWTH OF MICRO AND SMALL MANUFACTURING ENTERPRISES IN KENYA

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ABSTRACT

In Kenya, MSEs contribute over 80% of the country’s employment and over 40% of the country’s GDP. Statistics show that MSEs have high collapse rate. Low utilization of entrepreneurial management leads to poor quality of products and technology. Entrepreneurial management has been identified as having capability to innovate, an important effect on the enterprise growth and gives to enterprises a better competitive advantage. MSE growth is often closely associated with firm overall success and survival. Growth is the most appropriate indicator of the performance for surviving small firms. It is generally accepted that MSEs are becoming increasingly important in terms of employment, wealth creation, and the development of innovation. The main objective of this study was to establish the role of entrepreneurial management practices on the growth of manufacturing Micro and Small Manufacturing Enterprises in Nairobi County, Kenya. The study was guided by the independent variable: Innovation management with firm characteristics as the intervening variable. Fisher, Laing & Stockel formulae for determination of sample size was employed and further stratified to select a sample of 379 manufacturing MSEs. Data was presented in tables, charts and graphs. Content analysis was used to analyze qualitative data. A regression model was applied to determine the relationship between each of the five variables with respect to performance of manufacturing MSEs. The study found that owner manager level of education, experience in the enterprise a critical factor affecting growth of MSEs. Over and above the period in which MSEs have been in business, educational qualification of entrepreneur, size of the firm, sector of the firm, location of the firm, experience of the entrepreneur and innovative management all have statistically significant positive effects on success of the MSEs even though their owner managers are committed in being engaged in business promotion forums whereby most of them participates in business seminars and workshops. The study recommends that MSMEs should adopt innovative management to ensure their growth.
Key Words: Innovative Management, Growth of MSMEs

1. INTRODUCTION

1.1 Background to the Study

Entrepreneurial management is a “mode of management” that is proactive, opportunity-driven, and action-oriented. Entrepreneurial management style is evidenced by the firm’s strategic decisions and operating management philosophies. Entrepreneurial management tries to establish and balance the innovation abilities of the organization with the efficient and effective use of resources. It can both initiate changes and react to changes quickly and flexibly (Bin, Yunus and Abd, 2013). An entrepreneurial manager seizes any promising business opportunity irrespective of the level and nature of resources currently controlled (Evbuomwan, Ikpi, Okoruwa & Akinyosoye, 2013). Consequently, an entrepreneurial manager is someone who acts with ambition beyond that supportable by the resources currently under his or her control, in relentless pursuit of an opportunity (Evbuomwan, et al. 2013). MSE growth is often closely associated with firm overall success and survival. Growth has been used as a simple measure of success in business. Growth is the most appropriate indicator of the performance for surviving small firms (Mohammed and Obileagu-Nzelibe, 2014). Moreover, growth is an important precondition for the achievement of other financial goals of business. From the point of view of an MSE, growth is usually a critical precondition for its longevity. Young firms that grow have twice the probability of survival as young non-growing firms. It has been also found that strong growth may reduce the firm’s profitability temporarily, but increase it in the long run (Burns, 2011). Entrepreneurial management has been acknowledged as a determinant for a firm’s growth and profitability. High growth would be a result of innovativeness, pro-activeness and risk-taking orientation by the firm. In current business environments, where product and business model life cycles are shortened such
characteristics are positively associated with better performance (Onakoya, Onakoya, Jimi-Salami, Odedairo, 2013).

According to Fatoki (2011) small firms in the United Kingdom employ 62% of the labour force and contribute 25% to GDP. In the European Community as a whole, small firms employ 66 percent of the work force. Burns emphasizes the major role small firms’ play in the European Community, by citing the employment generated by small firms in various European countries. The Department of Trade and Industry (2016) of South Africa suggest that there are more than 1,200,000 MSEs, absorbing approximately more than a quarter of the labour force of 18 million people. This is in addition to approximately 3.9 million people who are involved in some type of survivalist venture. The DTI (2006) believe that small businesses in South Africa account for 70% of all employment and for 40% of GDP.

Micro and Small Manufacturing Enterprises have been identified as one of the growth engines for various countries in the world, since MSEs make up over 90 per cent of all enterprises (Lev, 2011). Besides, Asia-Pacific Economic Cooperation (APEC) (2012) pointed out that MSEs are deemed as supporters to larger enterprises as well as an important foundation in expanding business activities and sustaining economic growth. MSEs even provide more jobs than large companies (APEC, 2012, NSDC, 2009). In sum, MSEs play a vital role in contributing to the economy and are likely to be increasingly important as the economy becomes more global.

According to the Economic Survey (RoK, 2012), the MSE sector contributed 79.8% of new jobs created in that year in Kenya. Consequently, the Kenya’s development plans for the 1989-1993, 1994-1996 and 1997-2001 periods put special emphasis on the contribution of small and medium size enterprises in the creation of employment in the country (RoK, 2012). Job creation in this sector went up by 5.1 percent in 2011. The increase was 445,900 indicating a higher growth in
absolute terms compared to the increase of 437,300 registered in 2010. Analysis by province shows that Nairobi County recorded a 5.4 increase (RoK, 2012). According to the Sessional paper No.2 of 2005 (RoK, 2008), MSEs have high mortality rates with most of them not surviving to see beyond their third anniversaries.

1.2 Statement of the Problem

The collapse ratio of manufacturing MSEs is alarming for developing countries as well as developed countries (Ferreira, Azevedo & Ortiz, 2011). Past studies identified that a significant number of new manufacturing MSEs fail within first five years of their business operation (Ngugi, 2013). Several studies from Australia, USA and England showed that approximately 80% to 90% of MSEs fail within 5-10 years (Zimmerer, Searborough & Wilson 2015; Ahmad, Rani & Kassim 2011). Data obtained from the Kenya Institute for Public Policy Research and Analysis on MSEs shows that over 50% of MSEs continue to have a deteriorating performance with three in every five MSEs failing within months of establishment (KIPPRA, 2013). Reports from World Bank (WB) show that MSEs are known to experience stagnation with no significant graduation from one enterprise level to the next (WB, 2013). This is in line with Ngugi (2013) who referred to them as the “missing middle” as shown in Figure 1.1. This results to low economic development and loss of jobs (RoK, 2012). This implies that MSEs in Kenya are threatened for survival as a competitive enterprise. Kenyan MSEs contribute heavily to the GDP yet there is little empirical evidence available on this important sector of the economy. Therefore, could entrepreneurial management be the solution to this phenomenon? The study sought to answer this question.

1.3 Research Objectives
i. To explore how innovative management influences growth of manufacturing MSEs in Kenya.

ii. To assess the intervening effect of firm characteristics on the relationship between innovative management practices and growth of manufacturing MSEs in Kenya.

2. LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 Schumpeterian Theory of Innovation

Entrepreneurial activity has come to be regarded as a mechanism of change as it transformed resources into unforeseen products and services. It is against this background where the thoughts of Joseph Schumpeter (1885–1950) were developed. It was Schumpeter who postulated that capital consists more of goods or production equipment, rather it is a political factor; a power over the production (Schreier, 2012). Capital only has a function in a dynamic economy, as a tool to give the entrepreneur power to break the market’s status-quo by introducing innovations into the system.

Accordingly, entrepreneurship forces “creative destruction” across markets and industries, simultaneously creating new products and business models. Innovation is an effort made by one or more people who produce an economic gain, either by reducing costs or by creating extra income (Schumpeter, 1934). Schumpeter’s contribution had three important merits on the development of entrepreneurship theory: First, entrepreneurial activity is largely responsible for the dynamism of industries and long-run economic growth (SitiNabiha, Wahid & KamalulAriffin, 2010). Second, in Schumpeter’s theory the inclusion of imitators or followers adds the view that driving the market process does not require that the first mover makes a profit. Even if the first mover eventually loses out, when someone gets the business model right, the process leads to a
lasting change in the market (Christensen, 2013). Third, Schumpeter portrayed entrepreneurs as visionary change agents (Sandberg, 1992), and characterized them with the desire to build up wealth. From Schumpeter’s point of view, however, the entrepreneur is not necessarily somebody who puts up the initial capital or invents the new product, but the person with the business idea (SMECorp Malaysia, 2014).

2.1.2 Enactment Theory
An enactment perspective helps to identify why the institutional entrepreneur believes that what others consider unreasonable is instead a worthwhile pursuit (Salancik 1977; Danneels, 2003). Enactment involves the recognition that actors face environments which in part are self-created (Thomas, Shaw & Page, 2011). The process is one in which the actions of institutional entrepreneurs and beliefs jointly determine each other in a recurring pattern over time (Rosnani, Babak, Soaib & Suhaida, 2011). Institutional entrepreneurs take actions which then bind them to the belief of pursuing uncertain opportunities. Being more bound to the uncertain opportunities, their beliefs grow and develop to justify the actions. In this way, the actions the entrepreneurs take with respect to uncertain opportunities shape their beliefs and bolster their commitment. Actions they take based on the beliefs create a reality that further alters their beliefs and in turn prompts them to additional action. We therefore posit that the actions the institutional entrepreneurs take with regard to stakeholders strengthen their belief in the existence of the opportunity. Their commitment is “a state of being” in which they are bound by their actions and through these actions to beliefs that further sustain their activities and involvement (Tubey, 2012).

In this study, entrepreneurs’ intentions determine the form and the direction of nascent organizations at their inceptions and affect the survival and growth of the organizations that they lead. Although such actions can result from unintended and unplanned behaviors, intentions are
needed for them to become manifest (Bird, 1988). Literature shows that entrepreneurial intentions are rooted in personal characteristics, such as entrepreneurial self-efficacy (Zhao, Seibert & Hills, 2015) and risk-taking propensity (Agyapong, 2010), and in individual abilities, such as technical and management skills (Wiklund & Shepherd, 2013). Contextual factors, such as environmental influences (Agyapong, 2010), are also needed for entrepreneurial intentions to become manifest.

2.1.3 Portfolio Theory
The Modern Portfolio Theory (MPT) was introduced by Markowitz (1952). All economic decisions face trade-offs because of scarce resources and Markowitz identified the trade-offs facing investors, which is risk versus expected return. The objective behind MPT is to select a portfolio of various financial assets with the highest expected return for a given amount of portfolio risk or equivalently to select a portfolio with the lowest risk for certain level of portfolio expected return.

Morien (2011) covers the key assumptions behind the modern portfolio theory. One of the assumptions is that entrepreneurs are risk averse which means that they are willing to take on riskier investments in turn for higher expected return or accept lower expect return for less risky investments. It means that entrepreneurs are more concerned with risk than rewards. If investor could choose between two investments that offer the same return, he would choose the less risky one.

Recent empirical research identifies a number of firm characteristics that forecast growth of firms. Returns on portfolios formed by sorting firms on such characteristics exhibit a strong low-dimensional factor structure, with the common factors accounting for a significant share of variation. Furthermore, cross-sectional differences in portfolio exposures to the common factors typically account for a substantial fraction of the cross-sectional differences in their average return (Kogan & Papanikolaou, 2013). A common interpretation of such patterns is that the relevant firm
characteristics are correlated with the firms’ exposures to common systematic risk factors. In this study, entrepreneurs employ strategies to manage the dynamics of a portfolio structure. At the business level, outcomes indicate that individual business benefit from being part of a portfolio. At a personal level, successful portfolio entrepreneurs do become high net worth individuals.

2.2 Empirical Review
Innovation is not simply about generating creative ideas, but also involves the commercialization, implementation and the modification of existing products, services and new ways to meet market demand via new resource combinations. Innovation is not something that happens at some point in time. It is a process. Accordingly, innovation lays at the heart of the entrepreneurial process and is a means of opportunity exploitation. Innovation is not a characteristic of the individual entrepreneurs, but of their actions (Oforegbunam & Okorafor, 2010). Shehu, Aminu, Kamariah, Mat & Nasiru (2013) in his descriptive study on Entrepreneurial Behaviour and Growth of selected MSEs in Uganda revealed that individuals need a wide range of competencies in order to face the complex challenges of today’s world, but it would be of limited practical value to produce very long lists of everything that they may need to be able to do in various contexts at some point in their lives. He went ahead and argued that, key competencies are not determined by arbitrary decisions about what personal qualities and cognitive skills are desirable, but by careful consideration of the psychosocial prerequisites for a successful life and a well-functioning society. However, Shehu, Aminu, Kamariah, Mat & Nasiru (2013) recommended that though competencies are needed to help accomplish collective goals, the selection of key competencies needs to some extent to be informed by an understanding of shared values.

Company characteristics may explain the wide variations of voluntary disclosure in the annual report, the company's characteristics is a predictor of the quality of disclosure (Arogundade, 2011).
Every company has different characteristics to one entity with another entity. The size of a firm is inversely related to profit growth lending support to findings by Ayanda & Laraba (2011). Company size can be determined based on the value of market capitalization, total assets, sales, labor, and so forth which correlates to high. The size of the company will affect the company's funding structure. The need for greater funding has a tendency that the company wanted the growth in profits (Riyadi, 2016). The company size is based on total assets, because based on the research of Fitriani (2016) total assets shows the size of company more than the market capitalization. Sembiring (2015) states that larger companies probably will have shareholders who pay attention to social programs that created the company in its annual report, which is a medium to disseminate information about the social responsibility of the company's finances.

MSEs have been identified as one of the growth engines for various countries in the world, since MSEs make up over 90 per cent of all enterprises (Nevado & López 2002). Besides, Asia-Pacific Economic Cooperation (APEC) (2002) pointed out that MSEs are deemed as supporters to larger enterprises as well as an important foundation in expanding business activities and sustaining economic growth. Moreover, the contribution of MSEs in emergent economies had also been acknowledged to have played crucial role in the development of economy (Schlogl, 2004). There is no doubt that most of large size businesses start as a small business or at micro level. Many researchers agree that the MSEs are the backbone of economic development and growth.

In the European state of Hungary, Hortoványa and Szabó (2016) employed a descriptive methodology in a study on the impact of management practices on industry level competitiveness in transition economies. The study revealed that entrepreneurs in general seem to prefer taking moderate level of risk, thus tend to avoid both low-risk and high-risk situations. Predominantly, they avoid low-risk situations because the easily attained success is not a genuine achievement. In
contrast, the outcome of high-risk projects is regarded a matter of chance irrespectively of invested own efforts. The risks hence are typically assessed, calculated and managed. Hortoványi and Szabó (2016) recommended that instead of committing significant amount of resources at once, entrepreneurs should aim to invest only small amount of resources as long as future contingencies unfold. The study also recommended that by delaying substantial resource commitments, their potential loss is kept at minimum in case a certain idea, however, does not come up to the expectations (Hortoványi & Szabó, 2016).

In the Netherlands, Volberda (2012) used descriptive and exploratory research methodologies in assessing how to remain vital in hypercompetitive environments. The study linked the innovativeness dimension with technological leadership which were supported by research and development (R&D) in developing new products, services and processes. The goal of innovation, however, is the creation of a marketable competitive advantage rather than a pure technological invention. An invention (a new way of doing something) becomes an innovation only if it meets with an opportunity (a demand for a new way of doing something. Thus, technical-technological, organizational, financial and commercial activities are equally present, and they – in interaction with one another, in an integrated way – determine the way of materializing an idea. The study recommended that innovation demands extensive information processing capability across projects and organizational boundaries and across organizational disciplines (Volberda, 2012).

Using a multidimensional analysis, Garoma (2012) conducted a study on the determinants of microenterprise success in the urban informal sector of Addis Ababa and concluded that start-up capital has been among the basic characteristics of microenterprises. Many MSEs start operations with very low amount of capital owing to the nature of operators. The push and pull factors argument and reasons for choosing the activity indicates that initially MSEs operators start
businesses with a very low amount of capital. It was originally meant to sustain life of operators who are in a worse situation. Through time however, some operators turn this into a more profitable and better opportunity sector. The study recommended that although a small start-up capital means non-leveled playing field, it does not necessarily lead to low performance.

2.3 Research Gaps
Despite many European and American studies in this area, there is still a lack of understanding regarding entrepreneurial management of small firms within the Kenyan context. In particular, there is little published data on those firms with growth potential and on which the future development of many of the regions within Kenya will be based. Understanding the reasons for failure and researching the firms who find themselves in the growth phase, a framework can be established to present to start-ups to minimize the difficulties they might experience through lack of entrepreneurial management in managing their businesses.

Based on the criticisms and studies done, this research seeks to bridge the identified gaps by addressing them, this will be done by establishing the influence of entrepreneurial management practices on the growth of Micro and Small Manufacturing Enterprises in Kenya and why it is important for MSEs to consider the critical factors through an in depth study of the independent variables.

3. METHODOLOGY

3.1 Research Design
A descriptive survey research design was used in this study. The design is chosen since it is more precise and accurate as it involves description of events in a carefully planned way (Babbie, 2012). This research design also portrays the characteristics of a population fully (Chandran, 2014).

3.2 Population of the study
The target population of this study comprised of Micro and Small Manufacturing Enterprises in Nairobi County, Kenya since the area has a wide variety of MSEs. Data available from Nairobi City County (2014) shows that there are twenty eight thousand, six hundred and one (28,601) manufacturing MSEs in Kariobangi (7,755), Kasarani (4,012), Embakassi (8,425) and Industrial area (8,409) from which the sample will be computed.

3.3 Sampling

The study will use (0.5) to be the values of p and q in the formula (Pillay, 2010). Kura (2012) recommended that if there are no estimates in the target population assumed to have interest, 50% should be used as the proportion of the target population with characteristics being measured. From the study, the sample will comprise 379 entrepreneurs/owner managers working in manufacturing MSEs in Kariobangi, Kasarani, Embakassi and Industrial area, Nairobi County.

3.4 Data Collection

The data for this study was collected through individually administered questionnaires to retrieve necessary information. Care and control was exercised to ensure that all questionnaires issued to the respondents were returned. To achieve this, the researcher maintained a register of questionnaires, tracking questionnaires that were sent out, against those received. The questionnaire were administered using a drop and pick later method to the entrepreneurs/owner managers. This was expected to take place at their place of work.

3.5 Data Analysis

The researcher utilized mixed method which includes qualitative and quantitative techniques in analyzing the data. After receiving questionnaires from the respondents, the responses were cleaned (checking for outliers), edited, classified, coded and tabulated to analyze quantitative data using Statistical Package for Social Science (SPSS) software and descriptive and inferential
statistics. Descriptive statistical analysis focuses on the exhaustive measurement of sample characteristics. Inferential statistical analysis involved using information from the sample to make inferences, or estimates; about the population. Multiple Regression was applied to test the effect of independent variables on MSE growth. The results were presented in form of tables and figures because they are the relevant forms of data display.

4. FINDINGS

4.1 Response Rate

The study had a sample size of 379 respondents and 250 of all the dispatched questionnaires were closely monitored giving a response rate of 73%. This response rate was good and representative and conforms to Mugenda (2010) stipulation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent.

4.2 Innovative Management

Innovative management was measured by assessing the average new products/services respondents have introduced in the last five years and the level of market penetration since start of the enterprise. According to Mohammed and Obieleagu-Nzelihe (2014), innovation is not something that happens at some point in time. It is a process. Accordingly, innovation lays at the heart of the entrepreneurial process and is a means of opportunity exploitation. Innovation is not a characteristic of the individual entrepreneurs, but of their actions (Onakoya, Onakoya, Jimi-Salami, Odedairo, 2013)

**Average new products/services respondents have introduced**

Figure 1 illustrates the average new products the owner managers have introduced since year 2011. Results indicates a gradual but steady introduction of new products/services by MSEs with an
increase from 5% in 2011 to 12% in year 2012; up to 22% in year 2013; the 25% in the year 2014 with an increment to 36% in 2015. Accordingly to Schumpeterian Theory of Innovation, entrepreneurship forces “creative destruction” across markets and industries, simultaneously creating new products and business models. Antoncic and Hisrich’s (2011) study on Intrapreneurship linked the innovativeness dimension with technological leadership in developing new products, services and processes. The innovation process gets started, which involves the stages of idea generation, opportunity recognition, research opportunity and finally the further development of the idea. This is followed by the commercialization step, which includes the adoption and diffusion of new products and services and leads to following output stages of innovation (Antoncic & Hisrich’s, 2011).

Figure 1: Average new products/services introduced in the last 5 years

Level of market penetration since start of the enterprise in the last 5 years

The researcher also sought to know the level of market penetration in the last 5 years as displayed in Figure 2. Results indicate a consistent increment in market penetration from 7% to 18%, then
20% and 26% and finally 29% from year 2011 to year 2015 respectively. This implies that market penetration rises in tandem with increase in products in the MSEs sector. In the Netherlands, Volberda (2016) also linked the innovativeness dimension with technological leadership which were supported by research and development (R&D) in developing new products, services and processes in the market.

![Figure 2: Level of market penetration since start of the enterprise](image_url)

**Figure 2: Level of market penetration since start of the enterprise**

*Provision of Incentives for Innovative Employee*

The researcher sought to know the extent to which incentives for innovative management influence the growth of MSEs in Kenya. From Figure 3, 14.6% of the respondents indicated that incentives for innovative management influence the growth of MSEs to a very great extent with 18.3% indicating that incentives for innovative management influence the growth of MSEs to a great extent. At the same time 31.5% expressed that incentives for innovative management influence the growth of MSEs to a moderate extent, 22.9% of the respondents indicated that incentives for innovative management influence the growth of MSEs to a low extent, while 12.7% of the
respondents indicated that incentives for innovative management influence the growth of MSEs to a very low extent. These findings correspond with those by Islam et al (2011) who found that a creative and innovative employee who is motivated to develop new products and new markets has strong association to the growth of MSEs. The findings infer that Incentives for Innovative Employee influences the growth of MSEs in Kenya as depicted by the comparison of the findings of the study and available literature. This reveals that entrepreneurs who provide incentives to innovative employees is likely to encourage the employees to be creative and thus lead to emergence of new products and new markets and hence influence the growth of MSEs.

**Figure 3: Influence from provision of Incentives for Innovative Employee on Growth of MSEs**

*Entrepreneurs Support on Employees’ Innovation*

Regarding the extent to which owner manager’s support on innovative management influence growth of MSEs, Figure 4 shows that 18.5% of the respondents’ support innovative management influence growth of MSEs to a very great extent, 35.8% of the respondents indicated that
innovative management on employees’ innovation influence the growth of MSEs to a great extent, 22.6% of the respondents indicated that innovative management on employees’ innovation influence the growth of MSEs to a moderate extent while 13.2% of the respondents indicated that innovative management on employees’ innovation influence the growth of MSEs to a very low extent.

The study contradicts with the findings of Katwalo (2010) who disclosed evidence to the contrary indicating that material rewards are detrimental to innovation. The findings nonetheless, concur to those of Sebikari (2014) who showed that innovative management on employees’ innovation through material rewards such as bonuses and pay increases encourage innovation. It can therefore be concluded that innovative management on employees’ innovation through material rewards influence growth of MSEs. This further shows entrepreneurs who provide enabling environment for employees within the enterprise increases growth capacity of the enterprise.

Figure 4: Influence of Entrepreneurs Support of Employees’ Innovation on Growth of MSEs

The level of new product to total sales
The study sought to find out the extent to which the level of new product sales to total sales influences the growth of MSEs. 17% of the respondents indicated that the level of new product sales to total sales influence the growth of MSEs to a very great extent, 25% of the respondents indicated that percentage of the level of new product sales to total sales influence the growth of MSEs to a great extent, 32% of the respondents indicated that the level of new product sales to total sales the growth of MSEs to a moderate extent, 20% of the respondents indicated that the level of new product sales to total sales influence the growth of MSEs to a low extent, while 6% of the respondents indicated that the level of new product sales to total sales influence the growth of MSEs to a very low extent as shown in the figure 4.16 below. These findings concur with the findings of Varis and Littunen (2010) who found that introduction of new products in comparison to the revenues of enterprise is a major significance to MSEs growth and competitiveness. Therefore inferences can be made that entrepreneurs should invest in research and development such as advertisement and getting feedback from customers in order to bring products that are needed in the market. Therefore there is a relationship between the level of new product to total sales and the growth of MSEs.
Figure 5: Influence of Entrepreneurs Support of Employees’ Innovation on Growth of MSEs

Normality Test

Table 1: Tests of normality for innovative management/growth of MSEs

<table>
<thead>
<tr>
<th></th>
<th>Kolmogorov-Smirnov&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Shapiro-Wilk</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Statistic</td>
<td>Sig.</td>
</tr>
<tr>
<td>Unstandardized Residual</td>
<td>.139</td>
<td>.241*</td>
</tr>
</tbody>
</table>

* This is a lower bound of the true significance.

Lilliefors Significance Correction

Kolmogorov-Smirnov and Shapiro-Wilk test for normality were used to detect departures from normality (Math-Statistics-Tutor, 2010). The tests reject the hypothesis of normality when the p-value is less than or equal to 0.05 (Sharpiro and Wilk, 1965). Table 1 shows that the Kolmogorov-Smirnova and Shapiro-Wilk statistics were .139 and .962 respectively. The associated P-value was
.241 and .881. Since the p-values were greater than the significance level (0.05) (not significant at p<.05), this implies that the variables were normally distributed.

**Linear Regression**

From the linear regression analysis as presented in Table 2, it was noted that R²=.851 and R = 0.977. This implies that there is a strong linear relationship between innovative management and growth of MSEs in Kenya. The results of ANOVA test revealed that innovative management has significant effect on growth of MSEs. Since the P value actual 0.037 which is less than 5% level of significance. This is depicted by linear regression model Y=B0+B₂X₂+E where X₂ is the innovative management. The P value of 0.037 implies that the model Y=B0+B₂X₂+E was significant. The regression coefficients also indicated that there was positive gradient which implies that an increase in innovative management leads to increased growth of MSEs.
Table 2: Regression estimates for growth of MSEs/ innovative management

<table>
<thead>
<tr>
<th>Model Summary</th>
<th></th>
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<tbody>
<tr>
<td>R</td>
<td>0.977</td>
</tr>
<tr>
<td>R Square</td>
<td>0.851</td>
</tr>
</tbody>
</table>

<p>| ANOVA |  |</p>
<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Regression</td>
<td>89.23</td>
<td>5</td>
<td>17.846</td>
<td>27.91</td>
<td>.009b</td>
</tr>
<tr>
<td>Residual</td>
<td>141.97</td>
<td>244</td>
<td>0.582</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>231.20</td>
<td>249</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Enterprise Growth  
b. Predictors: (Constant), Innovative Management

<table>
<thead>
<tr>
<th>Coefficients</th>
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</thead>
<tbody>
<tr>
<td>Model</td>
<td>Unstandardized Coefficients</td>
</tr>
<tr>
<td>-------</td>
<td>-----------------------------</td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>3.03</td>
</tr>
<tr>
<td>Innovative Management</td>
<td>.066</td>
</tr>
</tbody>
</table>

4.3 The Intervening Effect of Firm Characteristics

Normality Test

Table 5: Tests of normality for firm characteristics /growth of MSEs

<table>
<thead>
<tr>
<th>Kolmogorov-Smirnova</th>
<th>Shapiro-Wilk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statistic</td>
<td>Sig.</td>
</tr>
<tr>
<td>Unstandardized Residual</td>
<td>.136</td>
</tr>
</tbody>
</table>

* This is a lower bound of the true significance.

Lilliefors Significance Correction

Kolmogorov-Smirnov and Shapiro-Wilk test for normality were used to detect departures from normality (Math-Statistics-Tutor, 2010). The tests reject the hypothesis of normality when the \( p \)-value is less than or equal to 0.05 (Sharpiro and Wilk, 1965). Table 5 shows that the Kolmogorov-Smirnova and Shapiro-Wilk statistics were .136 and .907 respectively. The associated \( p \) value was
.247 and .792. Since the p-values were greater than the significance level (0.05) (not significant at p<.05), this implies that the variables were normally distributed.

**Linear Regression**

From Table 4.6.6, the linear regression analysis indicated that $R^2=.692$ and $R = 0.851$. This implies that there is a strong linear relationship between firm characteristics and growth of MSEs in Kenya. From the ANOVA test, firm characteristics have significant effect on growth of MSEs. This is because P value actual was 0.039 which is less than 5% significance level. This is depicted by linear regression model $Y=B0+B_4X_4+E$ where $X_4$ is firm characteristics. The P value of 0.039 implies that the model $Y=B0+B_4X_4+E$ was significant. The regression coefficients also indicate a positive gradient which implies that an increase in firm characteristics leads to increased growth of MSEs.

**Table 6: Regression estimates for growth of MSEs/ firm characteristics**

<table>
<thead>
<tr>
<th>Model Summary</th>
<th></th>
<th></th>
<th></th>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>R</td>
<td>0.851</td>
<td>R Square</td>
<td>0.692</td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ANOVA</th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>Sum Squares</td>
<td>of</td>
<td>Df</td>
<td>Mean Square</td>
<td>F</td>
<td>Sig.</td>
<td></td>
</tr>
<tr>
<td>1 Regression</td>
<td>89.97</td>
<td>5</td>
<td>17.994</td>
<td>25.91</td>
<td>.007b</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residual</td>
<td>151.22</td>
<td>244</td>
<td>0.620</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>241.19</td>
<td>249</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Enterprise Growth  
b. Predictors: (Constant), Firm characteristics

<table>
<thead>
<tr>
<th>Coefficients</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>Unstandardized Coefficients</td>
<td>Standardized Coefficients</td>
<td>Sig.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>2.11</td>
<td>.143</td>
<td></td>
<td>.000</td>
</tr>
</tbody>
</table>
4.5 Growth of SMEs

The growth of the manufacturing MSEs was analyzed on the basis of percentage increase in number of employees, annual turnover and capital assets over the five year period. Daley (2001) argued that MSEs play a vital role in the development of a country in various ways, such as job creation for growing labor, providing desirable sustainability and innovation in the economy as a whole. Further, they argue that a significant numbers of people rely on the MSEs directly or indirectly for employment. Hall and Harvie (2003) argued that Micro and Small Manufacturing Enterprises play an important role in creating jobs, social uplifting and building a flexible and adaptable base for an internationally competitive economy.

CONCLUSIONS

The period in which MSEs have been in business, educational qualification of entrepreneur, size of the firm, sector of the firm, location of the firm, experience of the entrepreneur and management competence all have statistically significant positive effects on success of the MSEs. Furthermore, MSEs are committed in being engaged in business promotion forums especially in business seminars and workshops. They are also committed in using social media for marketing their products particularly Facebook and Whatsapp. Regarding the growth of the MSEs, it can be deduced that in most of them, the number of employees has increased to more than double the initial number of employees at the very first year of operation. Moreover, they have been able to increase their annual turnover by over 400% in addition to having grown significantly in terms of capital assets. In a nutshell, it can be inferred that, Innovative management and Firm Characteristics positively affect the Growth of MSEs. That is, collectively and individually, they significantly determine the Growth of MSEs.
RECOMMENDATIONS

It is vital that the managers engage in continuous training in the course of business to enhance these skills in them. The managers should also continuously remain innovative in bringing new products to the market while at the same time seeking ways to motivate staff. Staff motivation is critical since employees will play a major role in ensuring effective marketing of the product. Product development and innovation should be of high quality and competitively priced to achieve a competitive edge in the competition.

REFERENCES


Opio.C. O. (2010), Entrepreneurial Behaviour and Growth of selected MSEs in Uganda

Unpublished Dissertation

Muk


