

## **Original Research Article**

### **ASSESSING EFFECTS OF BUSINESS INNOVATIONS ON FINANCIAL PERFORMANCE OF SMALL AND MEDIUM-SIZED ENTERPRISES IN KENYA: A CASE OF SMES IN GARISSA COUNTY**

#### **ABSTRACT**

Despite the significant positive impact of small business enterprises on the Kenya's economic growth employment generation, these business entities are continuously collapsing; highly threatening their significant contribution. Although empirical studies from developed economies have revealed business innovations as the appropriate approach to addressing firm financial performance, there is scanty documentation on business innovations of SMEs being a key important determinant of the Kenyan small business' financial performance. hence this study which assessed the manner in which the business innovation of Kenyan small medium enterprises affects and relate to their financial performance. Adopting descriptive research design, the research had the 258 small businesses in Garissa County as its target population from where a sample population of 155 respondents was selected using stratified proportionate random sampling. Data collected from primary sources using a questionnaire was analysed on employing quantitative analysis approach to yielding descriptive statistics as well as inferential statistics with help of SPSS software Version 21.0. The study concludes that at 0.05 (5%) significance level, each of; financial institutional innovation, financial product innovations has positive moderate significant effect on Kenya's SMEs' financial performance while each of; marketing innovation and financial process innovations has a strong positively significant effect on the financial performance of SMEs in Kenya. The research recommend that the SMEs should; actively embark on adopting financial institutional innovations for improving their financial performance, embrace financial product innovations, develop and acquire marketing resources, and appreciated and support modern financial process innovations.

Keywords: *Business innovation, financial institutional innovation, financial performance, financial process innovations, financial product innovations, marketing innovation, small medium enterprises*

#### **INTRODUCTION**

Nowadays, there a common consensus that Small and Medium-Sized Enterprises (SMEs) as private sector business entities, are significantly contributing towards economic growth and sustainable development of almost all countries in the world (Gichuki, Njeru, & Tirimba, 2014). A they contribute substantially towards generating the revenue of most countries and to growing the country's Gross Domestic Product (GDP) they are important for employment creation, outshining all other sectors (Opinya & Rotich, 2015; Koech (2015). In Kenya, SMEs contribute up to 75% of employment generated in the country and up to 18% of the GDP in the country (Opinya & Rotich, 2015). Despite the significance of SMEs to Kenya's economy, their survival is highly debatable as of every five (5) SMEs started, three (3) collapse just a few months of operation (Government of Kenya [GoK], 2016). Morse so, the available literature has

not sufficiently explaining this issues despite empirical studies having associated the survival and growth of SMEs to business innovations (Addo, 2017; Kiptoo, Kariuki, & Kimani, 2017; Ngugi & Waweru, 2014).

Business innovation has importantly ensured creation of financial instruments of business enterprise as it also popularized introduction and adoption of new technologies focused on ensuring a win win situation for SMEs are hence enhancing profitability and attainment of business goals (Nzove, 2013). These key business innovation strategies include; financial institutional innovations, financial product innovations, financial market innovations, and financial process innovation (Kiptum, 2016). Thus, financial institutional innovations provide a platform for creation and adoption of modern firm's financial structure, including; internet banks and auto branches to build a clear business structure (Kibugo, 2016). As the financial product innovation has to do with new financial products/services (Domeher, Frimpong & Appiah, 2014), financial marketing innovations are adopted purposely to ensure that customer financial needs are addressed more efficiently (Mulei, 2015) and financial process innovations enable SMEs to introduce new ways of conducting financial business such as introduction of; electronic commerce (e-commerce), transaction through mobile phone, and new ways information technology (IT) implementation (Nakhaima, 2016).

Although SMEs' are important for supporting sustainable economy of Kenya economy, the financial performance of these enterprises in the country been stagnant for a long time (Gichuki, Njeru, & Tirimba, 2014). Statistics show that their contribution has stagnated at 11 percent (%) over the past 15 years and is manifesting itself in form of continued collapse these entities. In every five (5) SMEs started, three (3) collapse just a few months of operation while among those that survive, 80% collapse before end of the 5<sup>th</sup> year of operation. (Mwangi & Namusonge, 2014; Opinya & Rotich, 2015). Such performance of SMEs is adversely affecting their ability to significantly contribute sustainable economic and social development of the country, which might negatively affect the country's economy (Gichuki *et al.*, 2014). Despite empirical research showing that business innovation importantly contributes to financial performance of these firms (Karanja, Mwangi & Nyanga, 2013; by Wachira, 2013; Mwangi, 2014), applicability of their findings is limited to study sites, making their generalisation to all SMEs difficult. Thus, placing demands on researchers to immediately produce more empirical research which would provide the hidden valuable and treasured information for assisting SMEs mitigate instance of negative performance; necessitating this research for enriching the available array of empirical studies.

This study was assessing effects of business innovation on financial performance of Kenyan SMEs as its main objective and specifically to.

- i. To establish the effects of financial institutional innovation on the financial performance of SMEs in Garissa County.
- ii. To establish the effects of financial product innovation on the financial performance of SMEs in Garissa County.
- iii. To find out effects of financial marketing innovation influences the financial performance of SMEs in Garissa County.
- iv. To find out the effects of financial process innovation influence the financial performance of SMEs in Garissa County.

## LITERATURE REVIEW

### Theoretical Framework

Based on the assertion by Defee *et al.* (2010) that theory is the foundation of good research, the present study reviewed the theory of induced financial institutional innovation (Vernon & Hayami, 1984) and the constraint-induced theory (Silber, 1983).

### Theory of Induced Institutional Innovation (TII)

Vernon and Hayami's (1984) proposed the theory of induced institutional innovation (Vernon & Hayami, 1984), which is important for mapping the endowed resource and innovations (Vernon & Hayami, 1984). Based on this premise, the theory can comfortably explain the financial performance (endowed resources) to the financial institutional innovation in SMEs. Thus, financial institutional innovation fits in very well in explaining the financial performance of small business such as Kenyan SMEs.

### Constraint-Induced Business innovation Theory

Silber (1983) proposed for the approaching profit maximization on the premise of business innovation, which lays the foundation for the constraint-induced business innovation theory. When discussing the business innovation, this theory emphasizes innovation in adversity excessively, approaching business innovation from the microeconomic perspective. This theory suggests why SMEs come up with new ways of generating income within the changing landscape. As suggested by the theory, business innovation positively contributes to the small business's financial performance and more precisely, of SMEs.

### Empirical Literature

Certain past studies which were identified as useful in relating performance (and more specifically the performance of firm's financials) to business innovations were thoroughly reviewed for purposes of strengthening this study and as well for building strong study foundation.

In the year 2017, Addo conducted a local study which concludes that adopting innovative financial management practices highly contributes towards improvement of the SMEs' performance. while Kibugo (2016) showed that innovations positively improves the performance of microfinance, Kiptum (2016) study findings indicate that spending on financial marketing innovations importantly determine the profitability of Kenya commercial banks and Mulei (2015) established that innovations ensure increase firm financial performance

The findings study results in the research by Kiptum (2016) concurring to those in the study by Muiruri (2014) indicate adopting new innovations is important for increasing their profitable in terms of higher ROA. As the study carried out by Muteke (2015) indicates that business innovation and specifically institutional innovation positively influences performance, Muyoka's (2013) study established a positive influence of institutional innovations on performance among Kenya companies.

The study by Ngango, Mbabazize, & Shukla (2015) established that product innovations significantly ensure increase financial performance while in their study, Kojo and Yazidu (2015) established that product innovation largely influences the MFIs' interest rates and loan repayment rates. A study carried by Atieno in the year 2014 which established that product innovation enhanced improvement in the SMEs' access to finance.

Njogu's (2014) study revealed market innovation ensured that financial performance amongst SMEs in Nairobi County was significantly improved while Walobwa *et al* (2013) established that market innovation contributes most to growth of SMEs but it was less emphasized.

As Nzove's (2013) study revealed a strong association observed between process innovations and growth of SMEs, the study by Njogu (2014) revealed that process innovation affects financial performance among SMEs through improved productions and service delivery.

## RESEARCH METHODOLOGY

Although there are various research design approaches for selection, the present study resulted into adopting the descriptive research design for determining the collection of data process and also for explaining the analysis of this data when assessing the manner in which business innovation relates to SMEs' performance in its financial matters amongst Kenyan small businesses (SMEs).

This study established the 258 SMEs in Garissa County as its suitable target population (Garissa County Government, 2017), with owners/managers of these SME being the respondents. The sample size was determined as guided by Mugenda and Mugenda (2008). The approach as posed by Mugenda and Mugenda (2008) regards the value of target population is main determinants of the approach to use such that when the population exceeds 10,000 elements, 384 elements are recommended as the sample size otherwise the formula by Mugenda and Mugenda is recommend was adopted to guide establish the sample. Since the target population did exceed 10,000 the formula by Mugenda and Mugenda was used;

Garissa County. Mugenda and Mugenda recommend the formula;

$$nf = \frac{n}{1 + \frac{n}{N}}$$

Where;

nf= sample size for the population is less than 10,000,

n = desired sample when the population is more than 10,000,

N= estimate of the population size.

Thus

$$nf = \frac{384}{1 + \frac{384}{258}}$$
$$= 154.32 = 155$$

Thus the study sample size was equal to 155 elements. The suitable procedure used for selecting respondents, in this study, was the stratified proportionate random sampling. In this study, the owner/manager of each SMEs was selected as the respondents of the SME.

The required data, in this research, was provided by the respondents through answering the questions in the structured questionnaire administered to them using drop and pick technique. In construction of research tool, the study adopted the 5-point Likert scale for capturing data using the questionnaire. The tool pretesting was pretested for validity and reliability before the it was administered for data collection.

While content validity test was engaged in testing the validity of the data used in this work, internal consistency test approach as offered by Cronbach alpha approach was used for reliability testing.

Then the pretested tool was corrected and prepared for administration. The researcher then approach the SMEs selected for participation in the study; made appointment with the owners/managers on issues regarding collecting data from them, and thereafter made arrangements on when and how the data was to be collected. After agreements on arrangement were completed, the questionnaires was administered to respective and appropriate respondents and collecting it later at an agreed time or date (Kombo & Tromp, 2006). The researcher made clarification, where necessary as requested by the respondents.

Questionnaire contents was checked for errors arising out of exclusion and/or unwarranted inclusion of data after successfully collecting the responses. The data was encoded data and analysed using quantitative analysis which yielded the desired descriptive statistics including; frequency, means (M), standard deviation (SD), and percentage (%). Subsequently, this work initiated inferential analysis to yield correlation statistics (bivariate analysis) and regression statistics (multivariate analysis). While correlation was useful for establishing relationship between each IV and the DV, the regression was important for attaining a model that was estimating the DV; SMEs' financial performance, in terms of the IVs; financial institutional innovations, financial product innovations, marketing innovations, and financial process innovations).

## RESEARCH FINDINGS AND DISCUSSIONS

A questionnaire was administered to 155 and out of these only 123 were responded, translating to 79.35% response rate which as per Mugenda and Mugenda (2003) would

create credible results since it was high since it surpassed 69% (evaluated as high). The male respondents were 103 (83.74%) while the female respondents were 20 (16.26%). T I which case 93 (75.61%) were married while the single respondents were 29 (23.58%) and 1 (0.81%) was widowed. The lowest age groups the age bracket was 26 to 35 years which had 41(33.33%) respondents whiel those between 36 to 45 years were 24(19.51%) and those who showed that they were between 18 and 25 years were 23(18.70%). Those between 50 and 65 years were 15 (12.20%) and those between 40 and 55 years were 13(10.57%). Meanwhile those who showed that they wee over 65 years were 5(4.07%) and finally those less than 18 years were 2(1.63%). Those with undergraduate degrees formed 30.80% and those who had college certificates made up 30.08% as the secondary school leavers were 20.33% and those who had master's degree were 11.38%, while those who showed that they were primary school drop outs were5.69%. as those who showed that they had postdoctoral degrees PhD were 0.81% another 0.81% showed that they had other qualifications.

Those who indicated that their SMEs had between 21 and30 employees were 54(43.90%), while 33(26.83%) indicated that their SMEs had between 31 and 40 employees. Those who showed that their SMEs had between one (1) and ten (10) were 18(14.63%)while those who indicated their SMEs had more than 40 employees were 14(11.38%) and those who indicate their SMEs hand between 11 and 20 employees were 4(3.25%). Based on the results, over 70 % of SMEs had between 21-40 employees per SME.

Most SMEs, which formed 28.5%, indicated they had been in operation for between 11 and 15 years followed by those with between five (5) and 10 years who formed 18.7% of the total response. The SMES which had been in business for less than 5 years were 14.6 % of the respondents while those who had been in business for between 15 and 20 years were 13.8% and those with over 25 years in business formed 13%. Finally, those that had been in business for between 21 and 25 years had the lowest numbers of 11.4% of the total respondents.

### **Descriptive Analysis**

The study sought to establish the average financial performance of small businesses (SMEs) within Garissa County, which was assessed to set up how SMES had performed in correlation to their financial performance. The outcome was gathered utilizing a 5 point Likert Scale questionnaire (range from 1 to 5), which was moderated to yield statistics shown in Table 1;

**Table 1: Interpretation of questionnaire Answers**

<b><u>Statistics Range</u></b>	<b><u>Interpretation</u></b>
1 to 1.8	Strongly Disagree
Above 1.8 to 2.6	Disagree
Above 2.6 to 3.4	Neutral
Above 3.4 to 4.2	Agree
Above 4.2 to 5.0	Strongly Agree

Source: Researcher Own Computations (2019)

For the DV, and for the results discussion the statistics in table 5 was used.

**Table 2: Statistics for Interpretation of Results**

<u>Statistics Range</u>	<u>Interpretation</u>
1 to 1.8	Not at All
Above 1.8 to 2.6	Low
Above 2.6 to 3.4	Moderate
Above 3.4 to 4.2	High
Above 4.2 to 5.0	Very High

Source: Researcher Own Computations (2019)

For the DVs; the outcome from the analysis is represented in Table 3.

**Table 3: financial performance of SMEs in Garissa County**

<b>Financial performance of SMEs in Garissa County</b>	<b>M</b>	<b>SD</b>
Our enterprise has been realizing increasing profitability in last five years	3.17	1.10
Return on sales of our enterprise has been growing consistently in the previous five years	3.35	1.19
The enterprise has always been recording high return on equity	3.26	1.19
Our enterprise has always been enjoying high return on investment	3.03	1.08
The has always been ensuring adequate capital for running business	3.67	1.01
Our business has always been retaining sufficient surpluses for ploughing back into the business	2.04	1.16
<b>Average financial performance of SMEs</b>	<b>3.09</b>	<b>1.12</b>

Source: Research data (2019)

The results above demonstrate that the respondents were neutral/impartial on the average financial performance of SMEs ( $M = 3.09$ ,  $SD = 1.12$ ). Specifically, the respondents indicated impartiality on whether their enterprises had been realizing increasing profitability for five years previous to the study ( $M = 3.17$ ,  $SD = 1.10$ ). Additionally, impartiality was shown on the assertion that their enterprises had been growing consistently over the same period ( $M = 3.35$ ,  $SD = 1.19$ ). As they indicate they were impartial on the idea that their businesses had always been recording high return on equity ( $M = 3.26$ ,  $SD = 1.19$ ), they additionally were impartial on the declaration that their enterprise had always been enjoying high return on investment ( $M = 3.03$ ,  $SD = 1.08$ ). These respondents agreed/concurred that their enterprises always guaranteed

that there had been adequate capital for running the business ( $M = 3.67$ ,  $SD = 1.01$ ). Finally, they couldn't help contradicting the statement that had always been retaining sufficient surpluses which was sufficient to be ploughed back into the business for guarantying more revenue ( $M=2.04$ ,  $SD=1.16$ ).

The analysis evaluated the first objective which was to establish the effects of financial institutional innovation on the financial performance of SMEs in Garissa County to acquire Table 4.

**Table 4: Financial institutional innovation and financial performance**

<b>Financial institutional innovation</b>	<b>M</b>	<b>SD</b>
Establishment of new types of financial intermediaries,	1.78	1.00
Changes in supervisory framework.	1.88	1.15
Changed legal framework.	1.76	1.07
Creation of new types of financial structure	1.85	1.16
Adoption of advanced technologies.	3.61	1.20
<b>Average financial institutional innovation</b>	<b>2.18</b>	<b>1.12</b>

**Source: Research data (2019)**

The results demonstrated that there was the financial institutional innovation lowly affected the financial performance ( $M=2.18$ ,  $SD=1.12$ ) in SMEs in Garissa. From the results above establishment of new types of financial intermediaries was shown as not effecting the financial performance ( $M=1.78$ ,  $SD=1.00$ ) while changes in the supervisory system had a low impact ( $M=1.88$ ,  $SD=1.15$ ) on the financial performance. The respondents showed that changed legal framework would have affected the financial performance of the small business (SMEs) within Garissa County ( $M = 1.76$ ,  $SD = 1.07$ ) and also creation of new types of financial structure had a low effect ( $M=1.85$ ,  $SD=1.16$ ). Notwithstanding, the respondents indicated that adoption of advanced technologies highly affected the financial performance of these enterprises ( $M = 3.61$ ,  $SD = 1.20$ ).

The analysis surveyed the subsequent objective, objective 2, which was to establish the effects of financial product innovation on the financial performance of SMEs in Garissa County. These results are shown in Table 5.

**Table 5: Financial product innovation and financial performance of SMEs**

<b>Financial marketing innovation</b>	<b>M</b>	<b>SD</b>
Development of new products quite regularly	2.78	1.13
Improving current products for ease of use and to improve customer	3.05	1.16



satisfaction		
High quality Products	3.21	1.13
Cost reduction of components and materials of current products	2.66	1.14
Highly differentiated products	3.47	1.16
<b>Average Financial marketing innovation</b>	<b>3.03</b>	<b>1.14</b>

Source: Research data (2019)

On analysis of the indicators of the impact of financial product innovation on financial performance of SMEs in Garissa, the results demonstrated that respondents showed it had moderate impact ( $M = 3.03$ ,  $SD = 1.14$ ). Other results demonstrated that development of new products would have moderately influenced the financial performance of these enterprises ( $M = 2.78$ ,  $SD = 1.13$ ). While improving current products for ease of use and to improve customer satisfaction was shown to have moderately influenced the financial performance ( $M=3.05$ ,  $SD= 1.16$ ), the financial performance would have been moderately influence by manifestation of high quality products ( $M=3.21$ ,  $SD=1.13$ ). According to these results, cost reduction of components and materials of current products was shown to have moderately affected the financial performance ( $M = 2.66$ ,  $SD = 1.14$ ) while the influence of highly differentiated products financial performance of SMEs in Garissa was shown to be high ( $M=3.47$ ,  $SD = 1.16$ ).

The analysis evaluated the next objective, objective 3, which was to find out effects of financial marketing innovation influences the financial performance of SMEs in Garissa County to produce Table 6.

**Table 6: Financial marketing innovation and financial performance of SMEs**

<b>Financial marketing innovation</b>	<b>M</b>	<b>SD</b>
Changes in Products design	2.89	1.27
Distribution channels changes	3.47	1.06
Renewal of Product promotion techniques	3.47	1.14
Renewal of Product pricing techniques	3.72	1.12
Changing Marketing management activities	3.58	0.91
Renewal of Products design	3.50	1.16
<b>Average Financial marketing innovation</b>	<b>3.44</b>	<b>1.11</b>

Source: Research data (2019)

As informed by results obtained in the table above, the impacts of financial marketing innovation on financial performance of SMEs in Garissa County was demonstrated to be high ( $M = 3.44$ ,  $SD = 1.11$ ) after assessment of its indicators. From the results,

changes in product design appeared to have moderately influence the financial performance of these enterprises ( $M=2.89$ ,  $SD=1.27$ ) while the influence of distribution channels changes on the financial performance was shown to be high ( $M = 3.47$ ,  $SD=1.06$ ) as well as the influence of renewal of product promotion techniques on financial performance of these enterprises was also shown to have been high ( $M=3.47$ ,  $SD=1.14$ ). In the meantime, each of; renewal of product pricing techniques ( $M=3.72$ ,  $SD=1.12$ ), changing Marketing management activities ( $M=3.58$ ,  $SD=0.91$ ) and renewal of products design ( $M=3.50$ ,  $SD=1.16$ ) appeared to was shown to have had highly affected the financial performance of SMEs in Garissa County.

The analysis surveyed the final objective which was to find out the effects of financial process innovation influence the financial performance of SMEs in Garissa County and the results acquired displayed in Table 7.

**Table 7: Financial process innovation and financial performance of SMEs**

<b>Financial process innovation</b>	<b>M</b>	<b>SD</b>
Increasing use of automated service delivery	2.56	1.22
Cost effective process of operations	3.88	1.11
Eliminating non-value adding activities	3.85	0.93
Continuously improving the process	3.90	1.06
Well-articulated process design	3.68	1.12
<b>Average financial process innovation</b>	<b>3.57</b>	<b>1.09</b>

Source: Research data (2019)

The results acquired demonstrate that the respondents showed that the financial process innovation was indicated as highly influencing the financial performance of SMEs in Garissa County ( $M = 3.57$ ,  $SD = 1.09$ ). based on these results, the influence of all the indicators analysed on financial performance was high, increasing use of automated service delivery which had a low effect on financial performance of SMEs in Garissa County ( $M=2.56$ ,  $SD=1.22$ ).. As shown in the results, each of; cost effective process of operations ( $M=3.88$ ,  $SD=1.11$ ), eliminating non-value adding activities ( $M=3.85$ ,  $SD=0.93$ ), continuously improving the process ( $M=3.90$ ,  $SD=1.06$ ) and well-articulated process design ( $M=3.68$ ,  $SD=1.12$ ) was indicated have highly effect on the financial performance of SMEs in Garissa County.

### **Inferential Analysis**

The inferential analysis was introduced to the study with the aim of achieving the core objective of the study of founding whether the IVs; financial institutional innovations, financial product innovations, marketing innovation, and financial process innovations were predictors of DV; financial performance of SMEs in Garissa County. This analysis was initiated with correlation analysis utilizing Pearson correlation at  $p$ -value = 0.05 to establish presence of a relationship between the IVs and the DV. The

inferential analysis was conclude with multiple regression analysis, which was in the long run done to for instituting the model for predicting the DV in terms of the IVs.

The study regressed all the IVs (financial institutional innovations, financial product innovations, marketing innovation, and financial process innovations) against the IV (financial performance of SMEs) to estimate a model, after correlation qualified the variables for further analysis since they were highly correlated.

After regression the study model below was obtained

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e \dots \dots \dots (ii)$$

Where:

Y = Financial Performance of SMEs in Kenya

X<sub>1</sub> = Financial institutional innovations

X<sub>2</sub> = Financial product innovations

X<sub>3</sub> = Financial Marketing Innovations

X<sub>4</sub> = Financial process innovations

β<sub>0</sub> is a constant (which is the value of dependent variable when all the independent variables are 0).

β<sub>1-4</sub> is the regression coefficients or change induced by X<sub>1</sub>, X<sub>2</sub>, X<sub>3</sub> and X<sub>4</sub>

e = error term

In advance, ANOVA was used to determine the influence that IVs have on the DV while also estimating the fit of the regression model, and results displayed in Table 8.

**Table 8: ANOVA for financial performance of SMEs**

ANOVA <sup>a</sup>					
	Sum of Squares	Df	Mean Square	F	Sig.
Regression	21.073	4	1170.468	24.012	.000 <sup>b</sup>
Residual	48.912	118	48.746		
Total	69.985	122			

a. Dependent Variable: financial performance of SMEs

b. Predictors: (Constant), financial process innovations, financial product innovations, marketing innovation, financial institutional innovations

Source: Research data (2019)

According to Table 8 results (p-value = 0.000, F = 24.012), it is clearly demonstrated that the p-value (0.000) is less than 0.05. In view of these results, there exists enough proof to infer that in any event, one of the IVs; financial institutional innovations, financial product innovations, marketing innovation, and financial process innovations is valuable in appraising the financial performance of SMEs in Kenya and henceforth these IVs are expedient for evaluating a model that would explain financial performance of SMEs in Kenya using; financial institutional innovations , financial product innovations, marketing innovation, and financial process innovations are concerned. Considering that the F-statistics (24.012), then model is moderately appropriate in explaining the variations in financial performance of SMEs within Kenya as clarified by the variations in the business innovations.

Regression was performed on the independent and dependent variables, acquiring Table 9 results.

**Table 9: Regression Results**

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.470	.428		1.099	.274
Financial institutional innovations	.180	.082	.180	2.184	.031
Financial product innovations	.186	.092	.166	2.024	.045
Marketing innovation	.134	.060	.172	2.210	.029
Financial process innovations	.306	.064	.382	4.797	.000

a. Dependent Variable: Financial performance of SMEs in Garissa County

Source: Research data (2019)

Commencing with these regression results captured in Table 9, it is apparent that; financial institutional innovations (p-value = 0.031 and T= 2.184), financial product innovations (p-value= 0.045 and T= 2.024), marketing innovation (p-value= 0.029 and T= -2.021), and financial process innovations (p-value= 0.000 and T= 4.797) where for every indicator the probability value was below 0.05 demonstrating critical significant relation between every IV and the DV. Thus; there is sufficient evidence to predict that each of; financial institutional innovations (p-value = 0.031), financial product innovations (p-value= 0.045), marketing innovation (p-value= 0.029), and financial process innovations (p-value= 0.000) can predict the financial performance of SMEs in Kenya at 5% level of significance.

Further, beta ( $\beta$ ) coefficient for; financial institutional innovations ( $\beta_1 = 0.180$ ), financial product innovations ( $\beta_2 = 0.186$ ), marketing innovation ( $\beta_3 = 0.134$ ), and financial process innovations ( $\beta_4 = 0.306$ ) were utilized to assessed model shown here under;

$$Y = 0.470 + 0.180X_1 + 0.186X_2 - 0.134X_3 + 0.306X_4 \dots \dots \dots (iii)$$

Using result in Table 9 above, the fitted regression equation is as financial performance of SMEs in Kenya = 0.470 + 0.180 (financial institutional innovations) + 0.186 (financial product innovations) + 0.134 (marketing innovation) + 0.306(financial process innovations). Through the assessment of coefficients for business innovation, all of the have positive coefficients financial institutional innovations had positive effect on financial performance of SMEs in Garissa County

It is construed that the consistent levels of financial performance of SMEs before incorporating the business development is 0.470. in which case, with financial institutional innovations having a coefficient of 0.180, then one (1) unit variation in financial institutional innovations lead variation on financial performance of SMEs in Kenya rate by 0.180 units a similar way. Financial product innovations has a coefficient of 0.186 which demonstrates a unit variation in financial product innovations has an effect of .rate of 0.186 on financial performance of SMEs in Kenya. Additionally, marketing innovation has a coefficient of 0.134, demonstrating that a unit variation in financial product innovations leading to rate of 0.134 units' variation in financial performance of SMEs in Kenya. Financial process innovations having a coefficient of 0.306 is an indication that one unit change in financial product innovations can result a change on financial performance of SMEs in Garissa County by 0.306 units.

Since coefficients of; financial institutional innovations, financial product innovations marketing innovation, and financial process innovations are positive, then each of these variables is directly proportional to the financial performance of SMEs in Garissa County. In this way, increase in any of these factors prompts an increase in financial performance of SMEs in Garissa County and vice versa.

The model summary was then obtained as shown in Table 10.

**Table 10: Model goodness of fit**

<b>Model Summary</b>			
R	R Square	Adjusted R Square	Std. Error of the Estimate
.549 <sup>a</sup>	.3011	.2774	.64382

a. Predictors: (Constant), financial process innovations, financial product innovations, marketing innovation, financial institutional innovations

**Source: Research data (2019)**

Table 10 demonstrates the determination coefficient is .2774, a signal that 27.74% of variation in financial performance of SMEs is clarified by variation in; financial process innovations, financial product innovations, marketing innovation, financial institutional innovations. Accordingly, all the variable; financial institutional innovation, financial product innovations, promoting development, and financial process innovations are solid determinants of financial performance of SMEs in Kenya.

## Findings

Based on results captured in chapter 4, the SMEs in Kenya are performing moderately in terms of financial performance as portrayed by the indicators of financial performance. The SMEs are registering moderate increases in their profitability, where some have minimal growth /increase in in their profitability and others do not gain any profits at all. As a result, the SMEs are experiencing moderate growth in their sales' return. This means that their ROI and ROE is moderate. However, the SMEs in Kenya are maintaining adequate capital for running the business, despite their lacking in capacity to retain sufficient surpluses for reinvesting in the business.

It is indicated in the results that that financial institutional innovation in SMEs in Kenya moderately affecting their financial performance as explained by the indicators of financial institutional innovation. In these SMEs, the adoption of financial intermediaries that are newer and changing their legal framework are important for improving their financial performance, however moderate. However, whenever the SMEs changes their supervisory framework and/or create new brand of financial structure the change in their financial performance is low (the effect on financial performance is insignificant). On contrary, adoption of advanced and modern types of technology energizes performance positively. This led to the deducing that financial institutional innovation play a role in the SMEs' financial performance perfection.

Financial product innovation has been found to be moderately affecting on financial performance of SMEs in Kenya; with most of its indicators lowly influencing the financial performance. The financial performance is moderately influenced by every one of; development of new products quite regularly, improving current products for ease of use, improved customer satisfaction, presence of high quality products and cost reduction. However, highly differentiated products highly impact the financial performance. At 0.05 level of significance, the financial product innovation has a positive moderate and significant influence on financial performance of SMEs in Kenya.

SMEs' financial marketing innovations have profoundly been found as influencing their financial performance, where notwithstanding changes in product design had a low impact on financial performance, all the other indicators highly influenced the financial performance. These are, distribution channels changes, renewal of product promotion techniques, renewal of product pricing techniques, changing marketing management activities, and renewal of products design. It was discovered that at 0.05 level of significance, the financial marketing innovation has a high and positively significant effect on financial performance of SMEs in Garissa County.

The study established that all things considered, financial performance of SMEs in Kenya is highly influenced by financial process innovation as shown by indicators of financial process innovation. Albeit increasing use of automated service delivery which lowly influences the financial performance, all other indicators i.e. cost effective process of operations, eliminating non-value adding activities, continuously improving the process and well-articulated process design highly influences financial performance of SMEs in Kenya. The analysis established that at 0.05 level of significance, the

financial process innovation highly affects financial performance of SMEs in Garissa County.

## **CONCLUSIONS AND RECOMMENDATIONS**

Based on the findings, the reveals that the Kenya SMEs are registering moderate financial performance of SMEs, where there is; moderate realization of their profitability, moderate growth of their sales' return, moderate ROE, and moderate ROI. Nonetheless, the SMEs in Garissa consistently keep up satisfactory capital for maintaining the business in spite of their absence of ability to hold adequate surpluses for furrowing once again into the business.

The study concludes that at 0.05 (5%) significance level, financial institutional innovation has positive moderate noteworthy effect on Kenya's SMEs' financial performance of SMEs. This is propagated by the variables of financial institutional innovation which contributed towards this effect on financial performance. such variables are; financial intermediaries (which should be new for improvement), supervisory framework change to fit the current SMEs' demand and requirements, changing the legal framework to accommodate the demands of the SMEs in the competitive environment, creating adaptive and diversified financial structure. Nonetheless, adoption of advanced technologies highly influenced the financial performance of SMEs within Kenya.

The study infers (concludes) that at 0.05 level of significance financial product innovations has moderate positive impact on the financial performance of SMEs in Kenya. The variables of financial product innovation contributing to this moderate impact were; development of new products quite regularly, improving current products for ease of use, improve customer satisfaction, presence of high quality products, and cost reduction of components and materials of current products. However, highly differentiated products highly affected the financial performance of the enterprises.

The study concludes that at 0.05 level of significance, marketing innovation highly and positively as well as significant affects the financial performance of SMEs in Kenya. In spite of the fact that changes in product design moderately influences financial performance the analysis uncovered that; distribution channels changes, renewal of product promotion techniques, renewal of product pricing techniques, changing marketing management activities, and renewal of products design highly influences financial performance of SMEs in Kenya.

The study concludes that at 0.05 (5%) level of significance financial process innovations highly, positively and significantly affects the financial performance of SMEs in Kenya. In spite of the fact that increasing use of automated service delivery lowly affected financial performance, cost effective process of operations, eliminating non-value adding activities, continuously improving the process, well-articulated process design, highly influenced the financial performance on SMEs in Kenya.

The study reveals that at 5% (0.05) significance level there exists sufficient evidence to conclude that , financial institutional innovations, financial product innovations, marketing innovation, and financial process innovations are solid and appropriate

estimators of financial performance of SMEs in Kenya since 27.74% of its variation is explained by variation in; financial institutional innovations, Financial product innovations, marketing innovation, and financial process innovations. This where financial performance of SMEs in Kenya =  $0.470 + 0.180$  (financial institutional innovations) +  $0.186$  (financial product innovations) +  $0.134$  (marketing innovation) +  $0.306$ (financial process innovations).

Based on these findings, certain policy recommendation, guided by the study objectives were provided. First, Kenyan SMEs should actively embark on adopting financial institutional innovations for improving their financial performance. These SMEs should as much as possible seek to establish new types of financial intermediaries. They should in collaboration with the county government seek for networking with financial intermediaries. The county governments of Kenya should assist their SMEs to access to the available financial intermediaries' financial intermediaries such as banks and other lending are of help in providing dent financing and other information of business management. This will help in creating of new types of financial structure In addition, the County governments should make changes in SME supervisory framework as well as the change legal framework to simplify the management of SMEs in the county. These SMEs should seek to adopt advanced technologies such as mobile apps and computers, in their business.

Secondly, the SMEs should embrace financial product innovations such as; regularly developing new products quite regularly and as well as continuously be improving their products for ease of use. This should also ensure the presence of high quality products/services. Importantly, these SMEs should adopt Customer Relationship (CRM) strategies for improving their customer satisfaction. The study suggest that these enterprises should ensures that there is adequate adoption management accounting skills, by the concerned people such as the manager/owner, to be employed in cost reduction of the related functions and items. Thus, the SMEs should have staff and owners who with adequate financing accounting skills. Since the SMEs are operating in a competitive environment, they should produce and deliver highly differentiated products/services.

Thirdly, the Kenyan SMEs should develop and acquire marketing resources (such as human resources, technological) for promoting their marketing innovation function. This will help then change their product design to deliver highly differentiated products/services as well as high quality products/services. They need to establish marketing function in their businesses; either outsourced or internally. This function should possess the approximate skills necessary for; changing and improving their distribution channels, renewing product promotion techniques, renewing product pricing techniques, changing marketing management activities, and renewing products design.

Lastly, the Kenyan SMEs should appreciated and support modern financial process innovations, where they; should increase their use of automated service delivery, design cost effective process of operations, and eliminate non-value adding activities. They should adopt appropriate supply chain approaches appropriate for continuously improving the process, and employing well-articulated process design.



## Recommendations for Further Study

Noticeably, this study relied data from SMEs in Garissa County, limiting its horizon to assessing the effects of various business innovations on financial performance of SMEs within Garissa County. It therefore does not include business innovations and the financial performance for other Kenya entrepreneurial entities. Thus, it is not clear on the applicability of the study in other county. According, the study proposes that another study should conducted in other Kenyan Counties.

Again, the data originated from primary sources, using a questionnaire. Notably, these are opinions and there is therefore the need to conduct the same study using secondary data to verify the findings in this study.

The study established that 27.74% of variation in financial performance of SMEs is explained by change in; financial institutional innovations, financial product innovations, marketing innovation, and financial process innovations. This implies that other factors account for 72.26%. change thus, the study recommends that other studies should be conducted to establish this 72.26% influence on the financial performance of SMEs in Garissa County.

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