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
By

ABSTRACT

Despite the significant positive impact of small and medium-sized enterprises on the economic growth and employment generation, small business enterprises in Kenya are continuously collapsing. The high rate of collapse in threatening their contribution to Kenya's gross domestic product. Although empirical studies from developed economies have revealed business innovations as the appropriate approach to addressing financial performance of small business, there is scanty documentation on business innovations as being a key determinant of the financial performance of small medium enterprise in Kenya. hence this study which assessed the manner in which the business innovations affects financial performance of Kenyan small medium enterprises. Adopting descriptive research design, the research used the 258 small medium enterprises in Garissa County as its target population from where a sample population of 155 respondents was selected using stratified proportionate random sampling. Data was collected from primary sources using a questionnaire and analysed using quantitative analysis approach to yield 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 and moderate statistically significant effect on financial performance of small and medium-sized enterprises in Kenya while each of; marketing innovation and financial process innovations has a statistically strong positively significant effect on the financial performance of small and medium-sized enterprises in Kenya. The research recommends that the financial performance in Kenya 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 and medium-sized enterprises*

INTRODUCTION

Nowadays, there is 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). As 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 significant importance 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). More so, despite empirical research having associated the survival and growth of SMEs to business innovations, the available literature has not sufficiently explaining the issues arising in Kenya (Addo, 2017; Kiptoo, Kariuki, & Kimani, 2017; Ngugi & Waweru, 2014).

Notably, business innovation has importantly popularized introduction and adoption of new technologies focused on ensuring a win win situation for SMEs in terms of enhancing profitability and attainment of business goals (Nzove, 2013). The distinguished business innovation strategies contributing to this include; financial institutional innovations, financial product innovations, financial market innovations, and financial process innovation (Kiptum, 2016). Accordingly, financial institutional innovations provide a platform for creation and adoption of modern firm's financial structure that provides avenue for building a clear business structure (Kibugo, 2016). As the financial product innovation provides arrangements for new ad innovative financial products/services (Domeher, Frimpong & Appiah, 2014), financial marketing innovations purposely ensure that customer financial needs are more efficiently addressed (Mulei, 2015) and financial process innovations enable SMEs to introduce new ways of conducting financial business (Nakhaima, 2016).

Despite the undeniable immense contribution of SMEs' to the sustainable economy of Kenya economy, the financial performance of these enterprises in the country has remained stagnated for a long time (Gichuki, Njeru, & Tirimba, 2014). 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 5th year of operation. (Mwangi & Namusonge, 2014; Opinya & Rotich, 2015). The high level of collapse of these enterprises adversely threatening their contribution sustainable economic and social development of the country, which might negatively affect the country's economy (Opinya & Rotich, 2015; Gichuki et al., 2014). Business innovations have been identified as the appropriate approach to addressing the growing complex needs of their financial performance challenges; with empirical studies showing that it contributes to financial performance of firms. While Mwangi (2014) revealed that financial returns of Micro Finance Institutions (DT-MFIs) are determined by business innovation, Karanja Mwangi and Nyanga (2013) established that innovativeness influenced on the growth of Kenya SMEs. The study by Wachira (2013) revealed that technological innovation was important for the enhancing the performance of the financial function Kenyan commercial banks. Although empirical studies have revealed business innovations as the appropriate approach to addressing firm financial performance, most SMEs in Kenya are not innovative; adversely affecting their financial performance. Empirical studies from developed economies have revealed business innovations as the appropriate approach to addressing firm financial performance. However, there is scanty documentation on business innovations of SMEs and importantly on the manner in which business innovations relates to financial performance of Kenyan SMEs. Consequently, Kenyan

SMEs are denied valuable information on the importance of business innovations in their financial performance. These gaps placed demands on researcher to immediately produce more empirical research which would provide the hidden valuable and treasured information for assisting SMEs mitigate instance of negative performance through adoption of business innovations, necessitating the carrying out of this 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) to help construct is concept.

Theory of Induced Institutional Innovation (TIII)

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. Based on this premise, the theory explains the financial institutional innovation in SMEs endowed resources for stimulating their financial performance. 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) suggested that profit maximization can be approached on the premise of business innovation hence the constraint-induced business innovation theory. When discussing the business innovation, this theory emphasizes on innovation in adversity excessively. 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 empirical studies 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 improve the performance of microfinance, findings by Kiptum's (2016) study 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 results in the research by Kiptum (2016) concurring to those in the study by Muiruri (2014) indicate that 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, and Shukla (2015) established that product innovations significantly ensure increase in financial performance while 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 established that product innovation enhanced improvement in the SMEs' access to finance.

Njogu's (2014) study revealed that 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.

As Nzove's (2013) study revealed that a strong association 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) formula which regards the value of target population as its main determinant

such that when the population exceeds 10,000 elements, 384 elements are recommended as the sample size otherwise the formula below is used to guide establish the sample. Since the target population did exceed 10,000 the formula by Mugenda and Mugenda was used;

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

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 a structured questionnaire. The questionnaire was administered to them using drop and pick technique. In construction of research tool, the study adopted the 5-point Likert scale for capturing its data. The tool was pretested for validity and reliability before the it was administered for data collection.

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

The pretested tool was corrected and prepared for administration; where the researcher approached the selected SMEs and made appointment with the owners/managers on issues regarding collecting data from them. Thereafter the researcher made arrangements on when and how the data was to be collected. After agreements on arrangement were completed, the questionnaires were administered to respective

respondents and collected later at an agreed time or date (Kombo & Tromp, 2006). The researcher made clarification, where necessary as requested by the respondents.

Questionnaires contents were 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 respective descriptive statistics including; frequency, means (M), standard deviation (SD), and percentage (%). Subsequently, this research 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 responded, translating to 79.35% response rate; which as per Mugenda and Mugenda (2003) would create credible results since it surpassed 69% (evaluated as high). The male respodents were 103 (83.74%) while the female respodents were 20 (16.26%). In here 93 (75.61%) were married while the single respodents were 29 (23.58%) and 1 (0.81%) was widowed. The lowest age bracket was 26 to 35 years which had 41(33.33%) respodents while 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 were 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%, 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 assess how SMES had performed in relationship 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

Statistics Range	Interpretation
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

Statistics Range	Interpretation
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

Financial performance of SMEs in Garissa County	M	SD
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
Average financial performance of SMEs	**3.09**	**1.12**

Source: Research data (2019)

Table 4: Financial institutional innovation and financial performance

Financial institutional innovation	M	SD
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
Average financial institutional innovation	**2.18**	**1.12**

Source: Research data (2019)

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The respondents showed that changing the legal framework would have affected the financial performance of the 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 study assessed 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

Financial marketing innovation	M	SD
Development of new products quite regularly	2.78	1.13
Improving current products for ease of use and to improve customer satisfaction	3.05	1.16
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
Average Financial marketing innovation	**3.03**	**1.14**

Source: Research data (2019)

On analysis 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). Detailed 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 study also assessed 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

Financial marketing innovation	M	SD

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
Average Financial marketing innovation	**3.44**	**1.11**

Source: Research data (2019)

Table 7: Financial process innovation and financial performance of SMEs

Financial process innovation	M	SD
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
Average financial process innovation	**3.57**	**1.09**

Source: Research data (2019)

on financial performance except for 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). Thus, 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 establishing 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. The inferential analysis was concluded; where 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;

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

Where:

Y = Financial Performance of SMEs in Kenya

X_1 = Financial institutional innovations

X_2 = Financial product innovations

X_3 = Financial Marketing Innovations

X_3 = Financial process innovations

β_0 is a constant (which is the value of dependent variable when all the independent variables are 0).

β_{1-4} is the regression coefficients or change induced by X_1, X_2, X_3 and X_4

e = error term

In advance, ANOVA was used to assess the model's goodness where the results displayed in Table 8 were obtained.

Table 8: ANOVA for financial performance of SMEs

ANOVA^a					
	Sum of Squares	Df	Mean Square	F	Sig.
Regression	21.073	4	1170.468	24.012	.000^b

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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 at least one of the IVs; financial institutional innovations, financial product innovations, marketing innovation, and financial process innovations is valuable predictor of the financial performance of SMEs in Kenya and henceforth these IVs are useful for evaluating a model that would explain financial performance of SMEs in Kenya. 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

Coefficients

	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)

The regression results captured in Table 9, show 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) are significant related to the DV since the p-value for each is less than 0.05. 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 (β) coefficient for; financial institutional innovations (β_1= 0.180), financial product innovations (β_2 = 0.186), marketing innovation (β_3 = 0.134), and financial process innovations (β_4 = 0.306) were utilized to fit the model shown here under;

$$Y = 0.470 + 0.180X_1 + 0.186X_2 - 0.134X_3 + 0.306X_4 \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{ (iii)}$$

The fitted regression equation is such that 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). Notably the coefficient for financial institutional innovations was positive implying it had positive effect on financial performance of SMEs in Garissa County. It is construed the value of financial performance of SMEs before incorporating the business innovation is 0.470. Financial institutional innovations having a coefficient of 0.180, a variation of one (1) unit in financial institutional innovations leads to variation on financial performance of SMEs in Kenya by a rate of 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

Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.549[a]	.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 as .2774, implying that 27.74% of variation in financial performance of SMEs is caused 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, financial institutional innovation among SMEs in Kenya moderately affecting their financial performance as explained by the indictors of financial institutional innovation. In these SMEs, the adoption of financial intermediaries and changing their legal framework are important for improving their financial performance, however this has moderate effect. However, whenever the SMEs change their supervisory framework and/or create new brand of financial structure, their financial performance is low (the effect on financial performance is insignificant). On contrary, adoption of advanced and modern types of technology energizes financial performance positively. This lead to deducing that financial institutional innovation play a role in the SMEs' financial performance perfection.

Financial product innovation moderately affects financial performance of SMEs in Kenya; with most of its indicators lowly influencing the financial performance. The financial performance is moderately influenced by; 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 are profoundly influencing their financial performance, where notwithstanding changes in product design had a low impact on financial performance. Distribution channels changes, renewal of product promotion techniques, renewal of product pricing techniques, changing marketing management activities, and renewal of products design highly influenced the financial performance. It was revealed 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, cost effectiveness 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, these SMEs 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. 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 recommendations were suggested. 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 count 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 counties. Accordingly, the study proposes that another study should conducted in other Kenyan Counties.

Again, the data used in the study originated from primary sources and was collected 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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