

## The Role of Innovation Capability in Organizational Success for Small and Medium Enterprises in Kenya: A Critical Review of Literature

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### Abstract

*This article presents the concept of innovation capability as a tool for organizational success in small and medium enterprises. Since entrepreneurship is the vehicle that will drive the vision 2030 in Kenya, it is imperative that we -underscore the importance of small scale and medium enterprises (SMEs) as major contributors of this noble course. SMEs operate in a dynamic and turbulent environment yet this sector is a major source of employment for Kenyans. In addition, there is an increasing challenge to build innovation capabilities for organizational success. This paper therefore examines concepts such as innovation, innovation practices, culture, sources of innovation and measurements of innovation while breaking from normal; innovation leaders, role of innovation and SMEs among others with a view to mitigating the challenges faced by SMEs in operating their business enterprises.*

**Keywords:** Innovation Capability, Small and Medium-Term Enterprises, Organizational Success

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### Introduction

Innovation capability is used to describe the ability to create and commercialize something new. It also describes new drives towards execution of new ideas. It could be new processes or introduction of a new product. Innovation capability demonstrates the relationship between creativity and implementation in Baer (2012). SMEs' Sector is fast growing but according to research findings, SMEs have a high mortality rate with most of them not surviving to see beyond their third anniversaries. This has resulted in a weak base for industrial take-off and sustainable development (GOK 2005).

Innovation is generally used in business arena and is usually associated with creativity. Innovation capability is widely described as the ability to create something new (Dyer et al., 2009). Pearce and Robinson (2011) also describe innovation as “the initial commercialisation of invention by producing and selling a new product, service or process” (p. 371). However, there is more to the innovation capability than the ability to come up with new ideas, products or services.

Innovation capability within an organisation represents how the people in the organisation think and act (Dobni, 2008). The role of individuals in supporting innovation capability is critical to innovation success. Srivastava and Sushil (2014) and Baer (2012) opine that that individual motivation plays an important role in enhancing innovation capability. The drive to innovation can be intrinsic (self-drive) or extrinsic (pegged on external factors).

Previous studies have recognised innovation as a dynamic organisational capability crucial for organisational success (Giniuniene & Jurksiene, 2015). Innovation capability plays a pivotal role in business success by being a platform and vehicle for change and idea generation that can enable businesses to propel to greater heights. These innovative ideas can leverage businesses giving them competitive advantage over others, considered as critical to business sustainability and success. Innovation is therefore imperative for every industry (Thompson et al., 2016).

Various scholars use different parameters to assess innovation capability, this paper identifies six constructs of innovation capability which include innovation champions, innovation leaders, creative innovation culture, innovation tension, innovation behaviour and innovation failure.

### **Background Information**

#### *Role of Small-Scale Enterprises*

All over the world, small firms have manifested great roles in economic growth and development and this has made it the main focus for economic development policies in various economies. Such focus further justifies why the western world, Europe and Japan are advanced in economic development. These events are however traceable from the early 1950s when the United States Government strongly favoured the small firms and the US small Business Act was summed up and in 1983 was designated by the European commission as the European year of small firm. The shift to small enterprises was based on various beliefs; (i) that small firms were more efficient employment creators than their large counterparts and that small firms had higher inherent potential for innovation than larger firms (Rothwell, 1986).

In Kenya, the government documents emphasize on technological development as the major challenge facing the country's economic development and suggest transferring technology from foreign investors to local investors and also from large to small enterprises through subcontracting relationships, and joint ventures (GOK, 1992). Transfer of technology to the small – scale enterprises increases the production volume because of the numerous SMEs. Thus, new products and service are realised in an economy while smaller firms are also seen to ensure proper utilisation of resources eliminating wastages. It has been established that 90% of rural enterprise products are marketed directly to rural households. Small scale operations provide excellent opportunities for the entrepreneurial and managerial talent to reduce the critical shortage which is often a great handicap to economic development. The small-scale businesses offer support to if the relevant supportive policies for industrialization are in place. These are policies that promote rural – urban balance, helpful in increasing savings and investments by local Kenyans and encouraging use of local resources, thus leading to more effective use of capital and, finally, small scale enterprises adapt quickly to market changes (GOK 1992).

For innovators, innovation is about creative problem solving, about finding a novel solution that no one else has thought of. Sometimes, the solution comes in a moment of inspiration. In other cases, it takes years or even decades of labouring. The term innovation means a new way of doing something (Davila, Epstein and Shelton 2006; Regis Cabral, 2003). It may refer to incremental, radical, and revolutionary changes in thinking, products, processes, or organisations. Something new must be substantially different to be innovative, not an insignificant change, the change must increase customer value or producer value. Innovation is synonymous with the output of the process or marketing strategy, but economists tend to focus on the process itself, from the origination of an idea to its transformation into something

useful, to its implementation. Those responsible for application of the innovation are often called pioneers in their field. (Capon et al., 1993; Langdon, 2008) Everyone is struggling to define what the New Normal will be once we get out of the current Great Recession. Enterprises must innovate to get out of this economic quagmire. How much the US and the rest of the world change depend on two factors: 1) how long the deep recession lasts); 2) the price of energy (the higher it goes, the faster and deeper we transition off carbon to a greener economy).

#### *Who Determines Innovation?*

It is suggested to be flexible and to create an environment where employees are free to create and seek new opportunities (Braunerhjelm, 2010). The control of resources and the strategies for committing resources to opportunities may enhance or stifle entrepreneurship. As argued by Braunerhjelm (2010), Entrepreneurial management enables one to do much more with little. The dream of starting a company is held by many; however, few make it to venture start-up, and even fewer start “promising” companies (Skripak, 2016). Successful founders use an “entrepreneurial style” of thinking and acting to cope with uncertainty, urgency, insufficient personal resources, and surprise problems and opportunities. There are multiple personal, organisational, and environmental factors that impact new venture creation and success (Baum, Locke, & Smith, 2001).

Entrepreneurs, governments, employees, strategists, suppliers, stakeholders, manufacturers, competitors, outsiders, insiders, users, consultants, partners, business innovators and consumers- successful innovation comes with practice and it requires a lot of hard work. It comes from an intrinsic belief that persistent attempts will eventually generate successful new products. The belief in one’s ability to innovate must be steadfast, consistent, and deep. Innovation is therefore a mindset rather than a series of sequential activities. It requires an attitude of positive self-esteem. An end user-innovator can create value from an innovation by developing it and using it himself and perhaps diffusing it to others while an innovation manufacturer can create benefit by developing an innovation that he then sells to end users. It requires novelty – a complex set of processes that links many different players together.

### **Review of Literature**

#### ***Conceptualizing Innovation***

Conceptualization is making innovation useful to an organisation. In the organisational context, innovation may be linked to performance and growth through improvements in efficiency, productivity, quality, competitive positioning, market share and so on. All organisations can innovate, including for example hospitals, universities and local governments. New developments clear away or change old organisational forms and practices while organisations that do not innovate effectively may be destroyed by those that do. Innovation involves researching an idea, spending time and effort into developing this idea then commercialising this idea into a market place with customers.

#### ***Invention and Innovation***

A distinction is typically made between invention, an idea made manifest, and innovation, ideas applied successfully. Invention is the first occurrence of an idea for a new product or process, while innovation is the first attempt to carry it out into practice. Innovation is distinct from improvement in that it permeates society and can cause reorganization. It is distinct from problem solving and may cause problems. Thus, in this view, innovation occurs whether it has positive or negative results. What distinguishes an innovation from a simple change is the impact it has on the world in a unique way.

### ***Innovation and Market Outcome***

Organisations should have the capacity to predict market outcome from innovation as well as study the industrial organisational approach and resultant effect on consumer behaviour as a result of introduction of a new product/service. Caution should be taken not to over dwell on the new imaginary markets at the expense of the mainstream market by balancing the two sides of the markets for a firm's products. There should be an understanding of the market situation by properly analyzing the demand/supply and their elasticity with respect to price.

### ***Value of Experimentation in Innovation***

An experiment involves trying out something new. A company's ability to innovate depends on a series of experiments [successful or not], that help create new products, processes and services or improve old ones. Thomke (2003) explores what would happen if experimentation is adopted by individual organisations.

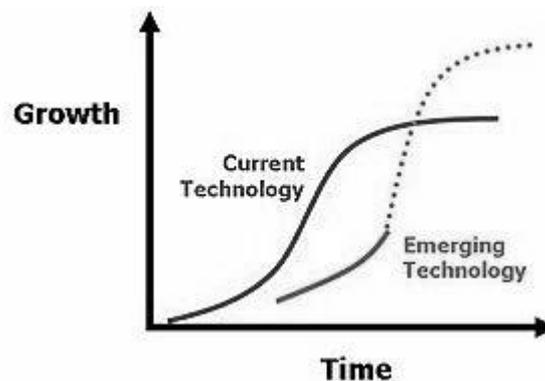


Figure 1: Diffusion of Innovations  
Source: Thomke (2003)

The s-curve maps growth of revenue or productivity against time. In the early stage of a particular innovation, growth is relatively slow as the new product establishes itself. At some point customers begin to demand and the product growth increases more rapidly. Increased innovations or changes to the products allow growth continuity. Towards the end of its life cycle growth slows and may even begin to decline. In the later stages, no amount of new investment hence the product will yield a normal rate of return. New products are therefore likely to have 'product life' which entails a start up phase, a rapid increase in revenue and eventual decline. Innovative companies often typically work on new innovations to eventually replace older ones. Successive s-curves will come along to replace older ones and continue to drive growth upwards. In the figure 1, the first curve shows a current technology. The second shows an emerging technology that current yields lower growth but will eventually overtake current technology and lead to even greater levels of growth.

### ***Innovation as a Behaviour***

Innovation model:

$$\text{Innovation} = (\text{creativity} + \text{capital} + \text{risk taking} + \text{Patience} + \text{transformation})$$

$$I = C + C + R + P + T \text{ (Author, 2018)}$$

### ***Innovation Failure***

Failure is an inevitable part of the innovation process, and most successful organisations factor in an appropriate level of risk. Failures should be identified and screened out as early in the process as possible. Early screening avoids unsuitable ideas devouring scarce resources that are needed to progress more beneficial ones. Organisations can thus learn how to avoid failure when it is openly discussed and debated. The lessons learned from failure often reside longer in the organizational consciousness than lessons learned from success.

### ***Measures of Innovation***

Measure of innovation for organisations can be conducted by surveys, workshops, consultants or internal benchmarking. There is no established general way to measure organisational innovation. Corporate measurements are however generally structured around balanced scorecards which cover several aspects of innovation such as business measures related to finances, innovation process efficiency, employees' contribution and motivation, as well as benefits for customers. Measured values will vary widely between businesses, covering for example new product, revenue, spending in research and development (R&D), time to market, customer and employee perception and satisfaction, number of patents, additional sales resulting from past innovations (Oslo manual, 1993; Dziallas & Blind, 2018).

### ***Creative Tension***

The key enabler of creative people is the ability and willingness to see things not only for what they are, but also for what they could be. This difference is often called creative tension, and it has been a powerful force of creative endeavour throughout human history. People who feel creative tension are intrinsically motivated and often feel compelled to make change. They long to bring to reality solutions that can fill the lacuna they envisage in their organisations, they work with dedication and persistence to overcome the obstacles they may encounter along the way (Lueke & Katz, 2008).

### ***Innovation Champions***

An Innovation champion is an individual or a team of people who work at innovation by promoting, encouraging, prodding, supporting, and driving innovation in their organisations. Innovation champions build the practical means for effective innovation. They find creative thinkers and encourage them to think and work in new ways; they help people seek new experiences that may spark new ideas; and they create regular operations context in which sharing and developing new ideas is the norm. Champions build collaboration and the trust upon which effective collaboration occurs. Champions link senior managers' roles and the front workers roles; they provide practical support and guidance for innovation. Champions are usually persistent net-workers who are in contact with many people and who know what's going on at many levels. They know who has skills, talents and resources, and they find out who needs them, and then they put them together to accelerate innovation progress. They look for learning opportunities/forums to share with others, in the form of meetings, discussions, external events, and perhaps even trainings, seminars, workshops and conferences (Lueke & Katz, 2008).

### ***Innovation Leaders***

An Innovation leader is someone who influences the core structures and the basic operations of an organisation, all with a clear focus on supporting innovation through organisational design, rules and policies. Leadership engagement is essential to innovation. Conversely, without leadership's direct participation, encouragement and indeed expectation; innovation will not happen (Langdon, 2008). Top managers can be powerful champions of innovation, or

dark clouds of suppression. Leaders' words and their actions can support and enhance Innovation. They can work diligently to eliminate the many obstacles that otherwise impede or even crush both creativity and innovation. If innovation is neither budgeted nor planned for, then is it going to happen? There ought to be a decision to innovate coming from a moral commitment to innovation. If innovation is not articulated as a goal of top management, then it probably won't be a goal of anyone else in the organisation.

Langdon (2008) describes the driving forces impacting our businesses and the worlds we live in everyday. The study exposes how the 'great ones' have innovated, and provides one of the most simple and powerful models to change your business and empower people to be more innovative; transforming the innovation landscape. If policies are so restrictive that they make it impossible to test new ideas, then there won't be many new ideas. Innovation leaders are typically, although not exclusively, senior managers who feel a compelling need to bring innovation to their organisations, and who have the authority to make key decisions about both an organisation's strategy and its operations. This puts them in a position to reduce or even eliminate obstacles that inhibit innovation performance (Langdon, 2008).

### ***Creating Innovation Culture***

The innovation culture makes innovation happen, and they do so consistently over time. Companies seem to adore repetition because it suggests business scalability, but innovation is all about novelty and the unexpected. At adopt a light, Safaricom, Equity bank and Toyota, the fruits of innovation have been tremendous breakthroughs in simplification, resulting in companies that are universally recognised as the most efficient. Most leaders know that to be successful in the long term they have to develop a strong innovation culture. If people are participating in an innovation system because they want to receive some sort of extrinsic reward, a cash prize for example, then over time what we would expect is a general decline in the quality of their participation. This means they do not have the culture of innovation but they are innovating for the sake of rewards.

### ***Measures of Innovation***

It's rarely easy to measure an individual's contribution to innovation unless that person happens to be uniquely creative, or is involved in high-profile projects. Innovation almost always involves the efforts of many people working diligently but perhaps quietly, so setting up an innovation reward structure that recognises the team element is usually preferable to a process that only acknowledges individuals (Harper Perennial, 2008).

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### ***Significance of Innovation and the Role of SMEs***

Policy makers and academicians understand the role of innovation and how it is an essential condition for economic progress. It is also a critical element in gaining competitive advantage among enterprises and national states. It has been estimated that over 60 percent of all economic growth is due to technological advance rather than improvement of labour

productivity (Bakker, Crafts & Woltjer, 2017). SMEs must therefore recognise that they have a great contribution to make to innovation which will aid success of their enterprises and finally achievement of vision 2030 and industrial development in Kenya. Ingenuity and innovation through discarding of the box will enable these entrepreneurs jumpstart this process by disputing the ordinary which is normal and embracing value adding change to their organisations.

### Conclusion

Innovation is difficult for organisations to accomplish, especially on a consistent basis. Structures, processes, and attitudes all can favour innovation or inhibit it. Other inhibitors are fear of getting out of the normal and exploring the extra ordinary (thinking out of the box), lack of a precise innovation methodology, and lack of time to pursue new ideas. If you're among the many managers who have identified the innovation culture as a target for your organisation to achieve, then getting rid of the obstacles should yield a significant improvement in your firm's innovation performance. SMEs can enhance their innovation ability by leveraging on their resources through use of latent innovation geniuses, champions, and leaders already existing in their organisations. As they focus on defining and supporting them in these roles, their work will be validated and their efforts are likely to become much more effective leading to organisational success.

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