

Innovation Aspects and Enterprise Growth among Small and Medium Electrical Machinery Enterprises in Nairobi County, Kenya

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ABSTRACT

The study sought to examine relationship between innovation aspects and enterprise growth among small and medium electrical machinery enterprises in Nairobi County, Kenya. The main objective of the study is to explore how and in what ways innovations contributed and led to enterprise growth among small and medium electrical machinery enterprises. The study adopted a descriptive survey design. A random sample of 96 small and medium electrical machinery enterprises was drawn from a target population of 502. Data was collected using structured questionnaire, interview guide and observation checklist. Relationships and

predictions among variables are determined using correlation and regression techniques. The study found that innovations had positive impact on the enterprise growth.

Keywords: Innovations, Enterprise Growth, Nairobi County, Electrical Machinery Enterprise

Introduction

Small and medium enterprises play an important role in economic development of many countries in the world. This is because they have the potential of employing many people in situations where formal employment may be scarce. Small and medium electrical machinery enterprises apply creativity and innovation to enhance their performance. In Kenya, a number of programmes, policies, strategies and flagship projects on entrepreneurship development have been formulated to promote growth of small and medium enterprises. Yet, the small and medium electrical machinery enterprises appeared not to have taken advantage of innovation types to develop growth. According to Braunerhjelm (2010), a society's ability to increase its wealth and welfare over time critically hinged on its potential to develop, exploit and diffuse knowledge, thereby influencing growth. This does not seem to apply in the case of small and medium electrical machinery enterprises in Nairobi County.

The focus on small and medium enterprises was particularly justified when investigating innovations in the context of small and medium electrical machinery enterprises where the role of entrepreneurs fostering innovation was especially important since innovation-related research had consistently shown that entrepreneurs were main locus and driver of innovations. Hisrich, Langan-Fox and Grant (2007); argue that entrepreneurship is a major source of employment, economic growth and innovation, and promoting product and service quality, competition and economic flexibility.

In today's competitive business environment, innovations were critical not only to facilitate differentiation, but also to reduce cost and add value for the customers (Juri & Idris, 2008). Kenya vision 2030 is the new country's development blueprint covering the period 2008 to 2030 (Government of the Republic of Kenya, 2007). The aim will be making Kenya a newly industrializing, middle income country providing high quality life for all its citizens by the year 2030. This will be based on the creation of international competitiveness through more efficient productivity at enterprise and household level, with government support. All the strategies and flagship projects will exploit knowledge in science; technology; and innovation

in order to function more efficiently, improve social welfare, and also promote democratic governance.

Despite these strategies and flagship projects the small and medium electrical machinery enterprises will require information on innovation types to exploit available opportunities for growth. The Kenyan economy exhibited limited innovations to foster increased output and productivity improvements necessary for employment and wealth creation (Government of the Republic of Kenya, 2008). The performance of small and medium electrical machinery enterprises is negative. It is against this background that this study set out to investigate the innovation types that contributed and led to enterprise growth among small and medium electrical machinery enterprises in Nairobi County in Kenya.

Statement of the Problem

One of the problems facing the Kenyan economy is unemployment. This is due to low economic growth, corruption, nepotism and the negative attitude towards entrepreneurship. Approximately 503,500 graduates from a pool of 1,374,360 graduates from various tertiary academic institutions in Kenya enter the job market annually. More than 870,860 graduates remain unemployed annually because of the weak economic performance and the public sector reforms, which have adversely affected employment in Kenya. Manufacturing as a key sector in the Kenyan economy contributes substantially to growth in output, exports and employment. However, production in the small and medium electrical machinery enterprises sub-sector's growth declined for the fifth year in a row for the period 2006-2010 (Kenya National Bureau of Statistics, 2011). From 2005-2009 the employment obtained in the sub-sector was on a downward trend. For instance, in 2005 the numbers engaged in the small and medium electrical machinery enterprises sub-sector was 2,481; by 2009 this number had dropped to 1,877. Value added in the sub-sector in 2005 stood at ksh. 3,054 million, declining to ksh. 2,282 million in 2009 (Kenya National Bureau of Statistics, 2010). Based on this problematic performance the small and medium electrical machinery enterprises sub-sector of manufacturing sector in Nairobi County in Kenya have not achieved expected growth target.

One way of enhancing the performance of small and medium electrical machinery enterprises is through innovation. Yet, lack of sufficient information on innovation as the creation of better or more effective products, processes, services, technologies, or ideas that are readily available to markets, governments and society have made small and medium electrical

machinery enterprises not to realize the expected growth. Not many studies have addressed this issue adequately. There is an urgent need to determine the critical innovation aspects that hindered enterprise growth among small and medium electrical machinery enterprises in Nairobi County, Kenya. The aim of this study is to establish how small and medium electrical machinery enterprises can take advantage of innovation aspects to realize growth. The study focused on entrepreneurial innovation behaviors that influenced growth of small and medium electrical machinery enterprises in Nairobi County in Kenya.

Research Objective

The research study sought to investigate the critical effect of entrepreneurial innovations on entrepreneurial growth of small and medium electrical machinery enterprises in Nairobi County in Kenya to initiate and constitute change in the County.

Literature Review

Innovation products

The innovation products variable was guided by economic entrepreneurship theory that explored the economic factors that enhanced entrepreneurial innovation behavior. The innovation products was also steered by resource – based entrepreneurship theory that argues that access to resources by founders is an important predictor of opportunity based entrepreneurship and new venture growth (Alvarez & Businitz, 2001). According to Wikipedia (2012) innovation is the creation of better or more effective products, processes, services, technologies, or ideas that are readily available to markets, governments, and society. Trott (2012) places particular emphasis on the need to view innovation as a management process. A cyclic model of innovation is introduced which emphasizes the importance of internal processes and external linkages. Product innovation is about making beneficial changes to physical products (O'sullivan, & Dooley, 2009).

Small and Medium Enterprises (SMEs) are increasingly gaining prominence world over as effective and efficient vehicles for job creation, poverty reduction and economic development (Gakure & Kirima, 2011). SMEs required particular and special consideration to unlock their potentials by putting in place mechanisms which encourage and facilitate enterprises to be innovative and become globally competitive. Enterprises achieved competitive advantage through acts of innovation, which can be manifested in a new product design, new production

process, new marketing approach or new way of doing business. Successful innovation is a systematic, purposeful, visionary and mission-oriented activity. Trott (2012) and Bwisa (2011) show the relationship between innovation and invention. Innovation is a theoretical conception, technical invention and commercial exploitation. This equation suggested three major foundations through which innovation occurred. The science foundation dominated research and development institutions including research and development departments in industry, the development foundation dominated by industry and the market foundation. Bwisa (2011) argues an entrepreneur systematically and purposefully tries to create new and different values and new and different satisfactions, to convert a material into a resource or combine existing resources in a new and more productive configuration.

On models of innovation, Bwisa (2011) identifies three schools of thought. They include social deterministic school, which argues that innovations are a result of a combination of external social factors and influences such as demographic changes, economic influences and cultural changes; individualistic school, which argues that innovations are a result of unique individual talents and innovators are born; and unexpected discovery school, which highlight importance of the unexpected discovery. The innovation products variable is operationalized by these indicators: degree of satisfaction with products, level of contribution of products and level of development of new products.

Innovation processes

Innovation processes variable is guided by sociological, opportunity-based and psychological entrepreneurship theories. Relating to sociological entrepreneurship theory, level of analysis was society. Concerning opportunity-based entrepreneurship theory, the entrepreneur always search for change, responds to it and exploits it as an opportunity. The hub of entrepreneurial management was the pursuit of opportunity without regard to resources currently controlled. According to psychological entrepreneurship theory; risk taking, innovativeness, need for achievement and tolerance for ambiguity portend positive and significant influence on entrepreneurial growth.

Process innovation was viewed as the introduction of a new or significantly improved method for the production or delivery of output that added value to the organization (O'sullivan & Dooley, 2009). The term process refers to an interrelated set of activities designed to transform inputs into a specified output for the customer. It implied a strong emphasis on how

work is done within an organization rather than what an organization does (Davenport, 1992). Processes relate to all operational activities by which value is offered to the end customer, such as acquisition of raw materials, manufacturing and logistics and after - sales services. Process innovation gave industries a competitive advantage that allows them to dominate some global markets with products. A specific model of the process of innovation is that of Donald G. Marquis (1969) in Bwisa (2011), which suggests that implementable innovations originate from two broad spheres. Notably, current state of the art that involves inventory of technical knowledge from which innovators base estimates of technical feasibility, and current state of social and economic utilization in which innovators could recognize existing and potential demand. Innovation processes was depicted as the link between technology transfer and commercialization process. Innovation processes variable is operationalized by the following indicators: degree of satisfaction with processes, level of contribution of processes and level of development of new processes.

Innovation services

Innovation services variable is steered by sociological entrepreneurship theory and economic entrepreneurship theory. In the sociological entrepreneurship theory, the level of analysis was the society (Landstrom, 1998). Reynolds (1991) identifies four social contexts that relates to entrepreneurial opportunity. The social networks focused on building relationships and bonds that promote trust and not opportunism. Life course stage context involves analyzing the life situation and characteristic of individuals who have decided to become entrepreneurs. Ethnic identification context, points out that an individual's sociological background was one of the decisive push factors to become an entrepreneur. Population ecology context postulates that environmental factors played an important role in the survival of enterprises. The economic entrepreneurship theory had deep roots in classical and neo-classical theories of economics and the Austrian market process. These theories explored the economic factors that enhance entrepreneurial innovation behavior.

Service innovation was about making changes to intangible products. A key attribute of a service was a very high level of interaction with the end customer. The internet was a valuable resource on which new service relationships between organizations and their customers were being developed every day. The concept of service quality was of particular relevance to entrepreneurs. The unique characteristics of services, such as intangibility, customer contact, inhomogeneity and perishable production, also offered significant scope for

innovation (O'sullivan & Dooley, 2009). Innovation services variable was operationalized by degree of satisfaction with services, level of influence of services and level of introduction of new services.

Innovation technologies

Innovation technologies variable is governed by resource-based entrepreneurship theory and opportunity-based entrepreneurship theory. Clausen (2006) argues that people with financial capital are more able to acquire resources to effectively exploit entrepreneurial opportunities and set up a firm to do so. Drucker (1985) postulates that entrepreneurs did not cause change (as claimed by the Schumpeterian or Austrian school) but exploited the opportunities that change (in technology, consumer preferences etc.) created. Emerging technologies had the potential for significant innovation across organization and could be the basis for innovative products, processes and services that could revolutionize the fortunes of an organization. Sources of innovation technologies could include universities, high technology startups and competing organizations. Many organizations used technology as an enabler to enhance knowledge better, improve process efficiency and enhance product offerings.

According to Magu (2011) growth in the manufacturing sector was widely considered a great vehicle for economic development, a fact taken by Kenyan policy makers by setting a policy ensuring industrialization by the year 2020. Magu (2011) contend that as evidence by case of newly developed countries meaningful industrial development was preceded by technological advancement. In Kenya, performance of manufacturing sector had been on a decline in last decade. In the electrical/electronics sub-sector most of enterprises had engaged in production of traditional electrical products, such as electric cables, lamps, electrodes and fans. Only a few had been involved in the manufacture of the more modern and high growth potential products such as computation, automation and communication equipment. Yet studies in more successful economies such as USA and South Korea had shown manufacture of modern and dynamic electrical/electronic products to be the growth vessel in the sub-sector. Innovation technologies variable is operationalized by these indicators: degree of satisfaction with innovation technologies, level of contribution of innovation technologies and level of development of new innovation technologies.

Innovation ideas

Innovation ideas variable is managed by the following entrepreneurship theories: sociological, opportunity-based, economic and psychological. The political system, government legislation, customers, employees and competition are some of the environmental factors that might have an impact on survival of new enterprise or the success of the entrepreneur. An opportunity-based approach provided a wide-ranging conceptual framework for entrepreneurship research. Entrepreneurs had an eye more for possibilities created by change than the problems. Entrepreneurs effectuated knowledge when they believed it would obtain some individually-defined benefits. The level of analysis in psychological theory was the individual. Personal characteristics explained entrepreneurship. Personality traits, need for achievement, locus of control, risk taking, innovativeness and tolerance for ambiguity characteristics had been found to be associated with entrepreneurial propensity.

O'sullivan and Dooley (2009) postulates that idea generation was the first stage of innovation process which relates to the creative activity of generating an opportunistic idea. This stage involved the continuous scanning of the internal and external environment for threats and opportunities that might be developed into an innovation by the organization. The stage involves mining the sources of innovation for new ideas and evaluating solutions to identified problems. In some cases ideas arose from observed problems that had occurred in the past or might occur in the future. Ideas could also be stimulated by the goals of the organization or an unanticipated opportunity. Innovation was the improving (adding value) to something already existing; the successful implementation of novel and appropriate ideas; the commercialization of an invention (Trott, 2012; Bwisa, 2011). Innovation ideas variable was operationalized by the following indicators: degree of satisfaction with innovation ideas, level of influence of innovation ideas and level of conversion of new innovation ideas.

Growth

The over-arching theory that guided growth in this study was the entrepreneurial innovation theories. Diffusion of innovations theory sought to explain how, why and at what rate new ideas and technology spread through cultures. Growth is the dependent variable in this study. It is influenced or changed by innovation products, innovation processes, innovation services, innovation technologies and innovation ideas. These are the five independent variables in this study. Growth was expected to change as a result of the manipulation of the independent variables. Growth was preceded by independent variables so that the magnitude of change or

effects could statistically be determined. Innovation was the technological precondition for growth (Eustace, 2009).

According to Njeru, Namusonge and Kihoro (2012) growth enterprises were entrepreneurial firms with high possibilities to grow. Yet, not all enterprises' first and foremost objective was growth. Some enterprises were established merely to exploit a short-time opportunity. Other enterprises liked to maintain the enterprise at its existing size. Enterprises that were seeking growth were likely to be interested in innovation than those that were not. Enterprises whose objective was to grow the enterprise, innovation provided a means to achieving growth. Growth-oriented enterprises are characterized by a commitment to long-term growth than short-term profit. Measures of growth of enterprises variable include: employees, turnover, net assets and size. Growth of enterprises variable in this study was operationalized by the following indicators: annual employee increase, degree of satisfaction on levels of turnover and degree of satisfaction on innovation types.

Data Analysis/Findings

The Innovation Products

The study sought to ascertain the respondents' satisfaction level with the innovation products. As revealed by the study, 68% of the respondents indicated that they were satisfied with the innovation products while 28% of the respondents were neutrally satisfied. As revealed in the study 58% of the respondents indicated that innovation products contributed to growth to a medium extent due to introduction of new, better and improved products into the enterprise which ultimately promoted competition hence growth in the enterprises.

The respondents were again asked to indicate why innovation products contributed significantly to the growth; as revealed in the study, 92% of the respondents indicated that innovation products had factored in enough contribution to growth due to readily new, opportunistic and improved products to the market. However, when asked to provide reasons as to why innovation products contributed insignificantly to growth; a considerable number of respondents noted that the products could not meet the customer demands and that other enterprises offered similar products hence stiff competition. The study realized that lack of capacity to innovate; insufficient entrepreneurial and technical skills to produce or modify products were the main problems that led to insignificance contribution of innovation

products to the growth. This according to the study ultimately led to lack of competition in the local, regional and international markets.

The Innovation Processes

The study established that 67% of the respondents were satisfied with the innovation processes. However, 27% had a neutral satisfaction level with the innovation processes. Consequently, the study determined that 58% of the respondents indicated that innovation processes to a medium extent contributed to growth by introducing new and improved production methods to enterprises and transforming inputs into specified output for the customers. In relation to findings, the study deduced that innovation processes significantly improved production methods that added value to products, that innovation adequately helped in availing needed products and contributed significantly by increasing production quality and improving flexibility of production. Regarding insignificance contribution of innovation processes to growth most respondents indicated that other enterprises processed similar products that there existed inadequate production capacity in some enterprises consequently insignificance of production processes. The study realized that lack of capacity to produce, production of products by other enterprises and lack of technical and entrepreneurial skills were the main causes of insignificance contribution of innovation processes to growth. The findings showed that reduced production capacity, reduced flexibility of production methods, reduced market share and increased production costs per unit of labor, electricity and materials were the key effects that were realized as a result of insignificance contribution of innovation processes to growth. The study finally analyzed that the ultimate effect of the insignificance contribution of innovation processes to growth are: the objective of increasing range of products could not be achieved, that competition into the local, regional and international market could not be realized and that the objectives of increasing production methods and techniques could not be ascertained.

Asked to state how the contribution was provided, a good number of respondents noted that enterprises adapted delivery of services that add value, that most enterprises embraced commercialization of products and services and by continually increasing production capacity and applying own innovation processes. However, others indicated the reliance to what others had produced resulted to insufficient contribution of innovation services to growth.

The innovation services

The study revealed that 63% of the respondents were satisfied with the innovation services in the small and medium electrical machinery enterprises. But 23% were neutrally satisfied with the existing innovation services. The study again sought to establish the extent to which innovation services led to growth. According to the results presented, 56% of the respondents to a medium extent indicated that innovation services led to growth while 25% showed that innovation services to high extent led to growth because of presence of new and opportunistic services to the enterprises and increased service quality to the enterprises.

The study further sought to find out reasons as to why innovation services led significantly to growth; the respondents indicated that provision of new and improved opportunistic services to meet market demands led significantly to growth. According to the study the insignificance contribution of innovation services to the growth was as a result of; the services were new to enterprises, customer expectation not met, innovation services available were not utilized and the lack of adequate service provision in the enterprises. In addition, the study realized that lack of technical and entrepreneurial skills and insufficient service provision capacity were the causes that led to the insignificance of innovation services to growth. The study indicated that reduced service range and poor quality, unimproved flexibility of service provision were the effects of insignificance of innovation services to growth. Conversely, the study deduced that production cost per unit of labor, materials and energy increment, unattained objective of increasing services and unachievable competition in local, regional and international markets as the ultimate effects on insignificance of innovation services to growth.

As established in the study, 62% of the respondents considered their enterprises to have good support from innovation services. The study sought means by which good support from innovation is provided. According to the study it was revealed the enterprises achieved this by offering significant scope for innovation, high interaction level with the clients and by relying on internal and market sources for innovation services.

The innovation technologies

According to the findings revealed by the study, 49% of the respondents were dissatisfied with innovation technologies. However, only 15% showed that they were satisfied with the innovation technologies. This was of course confirmed by 60% of the respondents who indicated that innovation technologies contributed to growth to a low extent due to the fact that technologies were expensive to the enterprises, high cost of innovation technologies and

that most enterprises engaged in traditional products and services, lack of technical and entrepreneurial skills hence not embracing the existing technologies.

Conversely some respondents indicated that innovation technologies contributed significantly to growth by enhancing knowledge, better improved process efficiency and profound product delivery. However, innovation technologies contributed insignificantly to growth due to low technologies used, advanced and expensive technologies applied. Lack of technical and entrepreneurial skills, inadequate resources and lack of capacity were the causes of insignificance contribution of innovation technologies to growth. The study revealed that reduced product and services quality, reduced services variety were the effects insignificant technologies had on the growth. Additionally, the study revealed that reduced technological capacities, turnover, and employment and lack of objectives to replace outdated products and services were the ultimate effect of insignificance contribution of innovation technologies.

When asked to state whether they have enough support from innovation technologies 58% of respondents considered that innovation technologies did not offer enough support to growth. Nevertheless, 38% of the respondents indicated that it had enough support to growth.

The Innovation Ideas

The research study revealed that majority (70%) of the respondents was satisfied with the innovation ideas. Contrary to expectation, 12% of respondents had neutral satisfaction with innovation ideas. The study sought to find out the extent by which innovation ideas led to growth. According to the findings presented in the findings, 48% of the respondents to high extent stated that innovation ideas led to growth while 44% to a medium extent showed that indeed ideas led to growth due to the fact that generation of new opportunistic and improved ideas and products were achievable. The study revealed that new products, services and ideas, better performance than other enterprises and increased sources of information for innovation ideas from internal and market sources were the main significance contributions of innovation to growth.

On the contrary, the respondents noted that insufficient usage of existing institutional and other cross cutting sources for innovation ideas, lack of cooperation with innovative learning institutions and failure to link with other enterprises as the key factors that led to the insignificance of innovative ideas to growth. In relation the study, it was revealed that inadequate linkage with other enterprises, lack of creativity and innovation culture, failure to

involve universities and relevant cross cutting research institutions for innovative ideas and lack of policy frameworks as the causes of insignificance of innovation ideas to growth. The respondents noted that insignificance of innovation ideas resulted to reduced business opportunities, lack of growth on the range and quality of products or services and insufficient technical and entrepreneurial skills. The study noted that the mentioned side effects ultimately led to lack of competition in the local and regional markets and lack of products or services quality. The study revealed that 75% of respondents indicated that they actually had enough support from innovation ideas. According to the study it was revealed the enterprises achieved this by offering significant scope for innovation, high interaction level with the clients and by relying on internal and market sources for innovation ideas.

Conclusions

The study identified that innovation products have greatly improved enterprise growth consequently reason for the satisfaction of respondents with the innovation products. The study further determined that innovation processes contributed immensely to the growth of enterprises hence the reason for higher level of satisfaction by majority of respondents. Again the study examined that innovation services had good improvement on the overall growth of enterprises confirming the reason for the revelation on the high level of respondents' satisfaction. The study established that the low level of satisfaction by respondents concerning innovation technology was as a result of expensive technologies and inadequate framework policies. The study finally explored that the presence of high level of satisfaction with the innovation ideas was as a result of the realized enterprise growth due to the fact that innovation ideas were adapted.

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