

Does Innovation Impact On Performance Of Organizations? An Empirical Discovery

Zachary Bolo Awino

University of Nairobi business School
Department of Business Administration

Abstract

The need to gain and sustain a competitive advantage is overwhelming for businesses, especially now with cut throat competition. Innovation has been suggested as one way of gaining the advantage sustainably. But innovation can only happen within certain enabling environment and cultures. This study had one hypothesis. That there is no relationship between Innovation and performance. This research was a cross sectional survey in which variables of interest are not controlled or manipulated. The cross sectional survey design is also appropriate for this study as it improves accuracy in generalizing findings since it involves detailed study of a unit. Also known as one shot study, this design enhances uniform data collection and comparison across respondents. The population of the study was the 55 publicly quoted corporations in the Nairobi Securities Exchange (NSE) as at October 2013. The number was initially envisaged to be 60 but 5 firms were delisted or suspended during the year, hence leaving 55 firms as the population of study. The rationale for the choice for these firms is because they cut across the key economic sectors in Kenyan economy which include agriculture, commercial and services, Manufacturing, finance and investment. This was a census survey and targeted all the listed firms at the Nairobi Securities Exchange as of October 2013. The primary data for the study was collected through the use of a structured questionnaire. A five point type likert scale ranging from 1 - denoting to a less extent to 5 - denoting to a greater extent was used. Respondents were from senior management of NSE. From the analyses, the study established that there was a strong positive relationship between innovation and performance and organization innovation significantly contribute to employee engagement. Also there was a moderate positive relationship between innovation and performance. The study drew expression of interrelations between various variables, offer generalization of understanding and meaning of these relationships, thus expanding the frontiers of knowledge both theoretical and practice with respect to innovation and firm performance. Major conclusion in this study was that there is a positive strong relationship between innovation and major measures of firm performance.

Key Words: Innovation, Performance, Organizations, NSE, Empirical

INTRODUCTION

It would be expected that a company that is adept at embracing new ideas and implementing them should see an improvement in its performance. The competitive success can be measured in terms of improvements in different Firm performance, such as return on investment and market share (Porter, 1988).

Sometimes, however, innovation does not lead to Firm performance. An example of this would be when the new idea is introduced but not exploited within the company. It has also been observed that organizational characteristics which aid idea generation may conflict with forces that facilitate adoption and implementation (Zaltman, Duncan and Holbek, 1973). It's only when adopted that the idea will lead to improved Firm performance. To measure performance we should use a "balanced approach" and should be classified at strategic, tactical and operational levels, and be financial and non-financial measures as well" (Gunasekaran et al., 2001,).

There has been some research in the area of innovation and performance. For example, Caird (1994) found that the innovator is highly important in the commercial success of innovative products in SMEs. Lipparini and Sobrero (1994) argue that the entrepreneur's ability to "glue" external expertise and capabilities in an original and unique way is considered the key factor in pursuing innovative performance. Simon et al. al (2002) found that entrepreneurial confidence, adaptability, product championing, market emphasis and technological newness contributed to performance across all new product introductions in small computer firms.

Wolff and Pett (2006) suggest that internationalization and innovator position have a positive impact on new product improvement in SMEs. Kickul and Gundry (2002) found that the prospector strategy orientation mediated the relationship between proactive personality and three types of innovation: innovative targeting processes, innovative organizational systems, and innovative boundary supports.

A study carried out in Australia by Prajogo (2006) explored the relationship between innovation and performance (in terms of product and process) and business performance (sales growth, market share and profitability) and compared this relationship between manufacturing and service firms. This study was driven by the lack of studies on innovation in service sectors despite the importance of innovation as one of the primary sources of competitive advantage.

Furthermore, as manufacturing firms and service firms are different in many respects, including innovation performance, it could be expected that manufacturing firms could pursue and emphasize different aspects of innovation than their service counterparts.

The study revealed some major findings. First, there was no significant difference between manufacturing and service firms in both product and process innovation performance. The second finding, however, indicated a stronger correlation existed for manufacturing firms than for service firms between innovation and business performance, particularly in relation to process innovation. Third, it was found that process innovation shows a relatively stronger relationship with business performance than product innovation in manufacturing sectors.

LITERATURE REVIEW

This section reviews pertinent literature relevant to this study in areas of innovation and organizational performance

Innovation in Organizations

Innovation within an organization is a multidimensional concept. This includes: product innovation, (changes to design, components and product architectures); process/ operations innovation, technology innovation which includes manufacturing technology and information technology innovation; management systems and organizational innovations (new managerial

systems, such as production control, quality management, and changes in organization, such as decentralization of authority and empowerment (OECD, 2005).

Innovation has been defined as the successful implementation of creative ideas within an organization (Amabile, 1998). It has also been referred to as the exploration of new possibilities and the subsequent successful exploitation of these; hence it is not about merely getting new ideas and the generation of an invention, but about the successful exploitation and diffusion of that invention.

March (1991) uses an organizational learning perspective to distinguish between innovations that explore for new knowledge and innovations that find clever new ways to exploit existing Knowledge. Firms that explore for new knowledge may seek incremental scientific improvements to serve existing markets, or they may break away from the safety of existing products and markets to pursue bold new product ideas or to try to for incremental improvements to existing know-how adds value to existing products for existing markets and is more common than high-risk pure research.

Indeed, the most common approach to innovation is to look for low-risk ways to improve the design of existing products using current knowledge to serve today's markets. Larger and more established firms tend to be more risk-averse and prefer innovations that have a greater chance of making money even if it means that the potential returns are less than spectacular. These firms often have a large installed customer base plus a larger and more geographically dispersed supply chain.

For these firms, the central innovation challenge is to constantly move the Performance bar a little bit higher without losing the ability to keep a complex set of technological and business relationships arranged in an orderly fashion. These firms prefer gradual incremental innovations and tend to delay more fundamental innovations as long as possible (Anderson & Tushman, 1990).

Another typology of Innovation is the breakthrough Innovation. Exploring for new knowledge is well illustrated by basic science that is often pursued in corporate Research and Development (R&D) labs as well as in university research centers. This form of R&D feeds the value chain for new product development by making scientific discoveries and earns a return on investment by claiming ownership to intellectual property through patents and proprietary knowledge. Because this form of R&D can be expensive and risky, it is sometimes hard to justify the investment unless there is some clear idea of the potential market value of new knowledge discoveries (American Management Association, AMA, 2006).

Organizational Innovation is also called Management Innovation and involves exploring new ways in terms of business models, Management techniques and strategies and organizational structures (Hamel, 2006). The attempt to create new products and services may spur organizational Innovation; such as new business models arising to take advantage of newly discovered market opportunities. One of the principal reasons for organizational innovation is that established firms can lose not just their ability to innovate but their insight into the necessity to innovate. Successful firms sometimes become blind to opportunities other than those that sustain their current customer base.

Christensen (2003) explains that as firms sell more technologically advanced and feature-rich products to serve their existing customers, they fail to see discontinuous innovations that would serve new customers in new ways. Overlooked opportunities might include a demand

for new products that are technologically less sophisticated than their current products. By achieving higher mastery of technology and higher mastery of product complexity, firms risk losing a sense of how best to respond to customers whose requirements for simplicity override their need for the most technologically advanced products. Business Process Innovations looks less at what is produced than it does at how it is produced. When Ford Motor moved to a production line system for creating a standardized product, it wound up being a great process Technology innovation combined with a great business model (Davila & Shelton, 2005). In some cases, companies are able to reduce costs while boosting productivity and quality via business process innovations.

Different authors emphasize the importance of different dimensions of innovation. For example, Schumpeter (1934) suggests a range of possible innovative alternatives, namely developing new products or services, developing new methods of production, identifying new markets, discovering new sources of supply, and developing new organizational forms. Miller and Friesen (1983) focus on four dimensions: new product or service innovation, methods of production or rendering of services, risk taking by key executives, and seeking unusual and novel solutions. While Capon et al. (1992) adopt three dimensions of organizational innovativeness: market innovativeness, strategic tendency to pioneer, and technological sophistication. Wang and Ahmed (2004) identify from various research, five main areas that determine an organization's overall innovativeness.

They present these as being product innovativeness, market innovativeness, process innovativeness, behavioral innovativeness, and strategic innovativeness. In line with these perspectives, they define organizational innovativeness as "an organization's overall innovative capability of introducing new products to the market, or opening up new markets, through combining strategic orientation with innovative behavior and process".

While literature has attempted to identify and classify various innovation types, AMA (2006) offers that a subject as complex as innovation will tend to defy neat and discrete categories. This lack of consensus in classifications poses a challenge to innovation measurement and study. This study adopted the classification of Product innovation, Technological innovation, Process Innovation and Technological innovation.

Literature also points to the need for a balance between radical and Incremental Innovation. Interestingly, while radical or breakthrough innovations can reap handsome financial profits, the largest percentage of revenue is still more likely to come from incremental Innovation. Balancing efforts to capture the advantages of both can be a wise but challenging goal for organizations to pursue.

Some research suggests that executives expect a growing percentage of future innovations to come through breakthrough, rather than incremental, innovations (Troy, 2004). That's understandable given that companies that can leverage more radical innovations can realize huge financial gains.

Christensen (2003) in a review of innovations found that, in the year 2000, 37percent of the companies that were leaders in terms of providing a "disruptive" innovation such as computing via cell phones exceeded \$100 million in revenues. In contrast, just 3percent of organizations attained such revenue levels if they were in already established markets (McLagan, 2002).

For firms in the high-tech sector, while next-generation innovations represent only 14 percent of product launches and 38percent of revenue, they still bring in 61 percent of profits. The

study also showed that while incremental innovations account for 62 percent of revenue, they bring in only 39 percent of profits. Rovner (2003) argues that organizations should invest more in next-generation technology.

Firm performance

Firm performance refers to the extent to which the organization meets the goals it has set for itself. While financial measures of performance of an organization are usually available, operational measures are typically ad hoc and lack formal structure (Hudson, 2001). Many firms have realized the importance of having both financial and non-financial performance measures. Crowther (1996) noted that while there are various considerations of the need for performance evaluation, it is only by recognizing that performance exists in multiple dimensions that the needs of an organization for its measurement and reporting can be addressed.

In the past, enterprises emphasized financial performance. But today matters have changed significantly. Information development has transformed their competitive basis into the intangible assets and the leadership performance from previous tangible financial performance. Therefore, performance measurement should include non-financial indices such as quality and customer satisfaction, which can be used for an enterprise to effectively evaluate its operational performance and consolidate competitive advantages (Tang, 2010).

According to Choi and Mueller (1992), an enterprise should simultaneously consider financial and non-financial indices for performance evaluation. In other words, qualification and quantification factors should be considered at the same time, because such non-financial indices as employee morale and product quality are very important for its long-term success.

In the research on financial performance indices, Van de Ven and Ferry (1980) thought that the traditional financial performance was the most common indices used to measure organizations by researchers, including return on investment, sales revenue and earning power and so on, in which sales revenue was the most common one. Therefore, in this study, the Firm Performance measurement methods presented by Venkatraman and Ramanujam (1986), which involved both financial and non-financial measures of performance, were used.

A major milestone in Firm performance measurement was the introduction of the balanced scorecard (Kaplan and Norton, 1996) which evaluates performance from four different perspectives: the financial, the internal business process, the customer, and the learning and growth. It is designed to complement financial measures of past performance with their measures of the drivers of future performance.

Therefore the relationship between innovation and organizational performance cannot be ignored in this study. It becomes an important area of study which both scholars and practitioners should consider in every aspect

Research Hypothesis

H1: There is no direct relationship between innovation and Firm performance

METHODS

This research was a cross sectional survey in which variables of interest are not controlled or manipulated. According to Irungu (2007), this design is usually appropriate where presence or absence of significant associations among variables is to be established. The cross sectional survey design is also appropriate for this study as it improves accuracy in generalizing findings

since it involves detailed study of a unit. Also known as one shot study, this design enhances uniform data collection and comparison across respondents.

Thus, this design enabled the establishment of relationships between Innovation and firm performance and thus, by choosing a cross-sectional survey we had the opportunity to collect data across different firms and test this relationship.

The researcher could capture a population's characteristics and test hypothesis quantitatively. Consequently, we had no control of variables and could not manipulate them. This is the essence of using this design as the researcher only reports what has already happened. Cross-sectional survey guards against any bias.

The population of the study was the 55 publicly quoted corporations in the Nairobi Securities Exchange (NSE) as at October 2013. The number was initially envisaged to be 60 but 5 firms were delisted or suspended during the year, hence leaving 55 firms as the population of study. The rationale for the choice for these firms is because they cut across the key economic sectors in Kenyan economy which include agriculture, commercial and services, Manufacturing, finance and investment. This was a census survey and targeted all the listed firms at the Nairobi Securities Exchange as of October 2013.

According to the rules governing listing in the NSE, the companies must consistently provide their financial reports annually. This presents the advantage of access to secondary performance data and also enables comparison and evaluation against, across and within the same industry and across different industries (Irungu, 2007). The firms listed in NSE were also particularly important for this study since there is demand for high performance placed on them by the shareholders and the NSE, arising out of the stretching targets of economic growth according to Kenyan Vision 2030. Productivity needs to improve, the right Leadership Style need to be identified and employed to ensure growth.

The data was derived from both primary and secondary sources. The two sources of data are meant to reinforce each other (Stiles, 2001). For this study, primary data was obtained from responses on: Innovation and Firm performance.

The primary data for the study was collected through the use of a structured questionnaire. A five point type likert scale ranging from 1 - denoting to a less extent to 5 - denoting to a greater extent was used. Respondents were from senior management of NSE. 3 year performance data was sourced from NSE reports (NSE Handbook, 2012).

One questionnaire was delivered to each organization.

For this study, secondary data relating to financial performance was obtained from the listed companies published audited accounts, Nairobi Stock Exchange (NSE) 3 year (2010-2012) manual, and Capital Markets Authority yearly reports. The financial (indicators) data obtained included profit/loss before tax per year, earnings per share and dividend yield.

RESULTS

The influence of Innovation on Firm Performance

The objective of this study was to determine the relationship between Innovation and performance of firms listed in the NSE. To measure performance, the study used Dividend Yield (DY), Earnings per Share (EPS) and Profit before Tax (PBT), Employee Engagement (EE) and Customer Focus (CF). Previous scholars have used these measures in similar studies (Letting,

2009: Sagar and Rajesh, 2008). In order to establish the influence of Innovation on firm performance, the study tested the Hypothesis below:

To investigate the relationship between innovation and firm performance, the study conducted a regression analysis as in the table 1. Innovation was regressed against the various measures of performance (DY, EPS, PBT, EE and CF). The result of influence of Innovation on employee engagement is presented in table 1.

Table 1: Innovation and Employee Engagement

Table 1: Innovation and Employee Engagement						
Model Summary						
Model	R	R Square	Adjusted R Square		Std. Error of the Estimate	
1	.855 ^a	.730	.696		.33588	
ANOVA ^c						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	9.473	4	2.368	20.992	.000 ^a
	Residual	3.497	31	.113		
	Total	12.971	35			
Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.804	.587		3.072	.004
	product innovation	-.232	.112	-.226	-2.071	.047
	process innovation	-.251	.151	-.193	-1.655	.108
	technological innovation	.091	.138	.073	.654	.518
	organization innovation	.953	.117	.982	8.157	.000
Predictors: (Constant), Innovation ; Dependent Variable: employee engagement						
Predictors: (Constant), organization innovation, product innovation, technological innovation, process innovation						
Dependent Variable: Employee Engagement						

Source: Research Data, 2014

The results indicate that there is a strong positive relationship between innovation and performance ($R = .855$) with 73 percent of variation in firm performance being explained by the variation in innovation ($R^2 = 0.73$). This implies that 26 per cent variation in firm performance is explained by factors other than innovation. The model was statistically significant ($F = 20.99$, p value < 0.05).

Product innovation ($B = -.232$, $t = -2.071$, P value = 0.047) and organizational innovation ($B = .953$, $t = 8.157$, P value = 0.000) significantly contribute to employee engagement. The model defining the relationship was thus represented as:

$$Y = 1.804 - 0.232 PI + 0.953 OI$$

Where

Y =employee engagement, PI = product innovation, OI = Organization innovation

Table 2: Innovation and Customer Focus

Model Summary						
Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate	
1	.648 ^a	.421	.346		.45217	
ANOVA ^b						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.600	4	1.150	5.625	.002 ^a
	Residual	6.338	31	.204		
	Total	10.938	35			
Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.666	.790		2.108	.043
	new product innovation	-.073	.151	-.078	-.484	.631
	process innovation	.035	.204	.029	.170	.866
	technological innovation	.126	.186	.110	.674	.505
	organization innovation	.541	.157	.606	3.436	.002
Predictors: (Constant), organization innovation, new product innovation, technological innovation, process innovation						
Predictors: (Constant), organization innovation, new product innovation, technological innovation, process innovation						
Dependent Variable: customer focus						

Source: Research Data, 2014

The results in table 2 indicate that there is a strong positive relationship between innovation and performance ($R = .648$) with 42.1 percent of variation in firm performance being explained by the variation in innovation ($R^2 = 0.421$). This implies that 58 percent of variation in performance is explained by other factors other than innovation. The model was statistically significant ($F = 5.625$, p value < 0.05).

Organizational innovation ($B = .541$, $t = 3.436$, P value = 0.002) significantly contributes to Customer Focus. The model defining the relationship was thus represented as:

$$Y = 1.66 + 0.541OI$$

Where

Y = Customer Focus

OI = Organization Innovation

Table 3: Innovation and Profit before Tax

Model Summary							
Model		R	R Square	Adjusted Square	Std. Error of the Estimate		
1		.486 ^a	.236	.137	3.74795E6		
	ANOVA ^b						
	Model		Sum of Squares	df	Mean Square	F	Sig.
	1 Regression		1.344E14	4	3.359E13	2.391	.072 ^a
	Residual		4.355E14	31	1.405E13		
	Total		5.698E14	35			

The results in table 3 indicate that there is a positive relationship between innovation and profit Before Tax ($R = .486$) with 23.6 percent of variation in firm performance being explained by the variation in innovation ($R^2 = 0.236$). This implies that 74 per cent of variation in profit before tax is explained by other factors other than innovation. The model was, however, not significant ($F = 2.391$, p value > 0.05).

Table 4: Innovation and Employee Engagement

Model Summary						
Model		R	R Square	Adjusted R Square	Std. Error of the Estimate	
1		.547 ^a	.299	.279	.51705	
ANOVA ^b						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	3.881	1	3.881	14.517	.001 ^a
	Residual	9.090	34	.267		
	Total	12.971	35			
Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.561	.828		.678	0.503
	Innovation	.794	.209	.547	3.810	0.001
Predictors: (Constant), innovation						
Dependent Variable: employee engagement						

Source: Research Data, 2014

The results in table 4 show the overall relationship between innovation and employee engagement. In this case the various dimensions of innovation are combined to form one composite for innovation. We see a strong positive relationship between innovation and performance ($R = .547$) with 29.9 percent of variation in firm performance being explained by

the variation in innovation (Rsquare = 0.299). The model was significant (F =14.517, p value <0.05).

Innovation (B =.794, t =3.81, P value= 0.001) significantly contribute to employee engagement. The model defining the relationship was thus represented as:

$$Y = 0.561 + 0.794I$$

Y=Employee Engagement, I= innovation

Table 5: Innovation and Customer Focus

Model Summary						
Model		R	R Square	Adjusted R Square	Std. Error of the Estimate	
1		.545 ^a	.297	.276	.47558	
ANOVA ^b						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	3.248	1	3.248	14.362	.001 ^a
	Residual	7.690	34	.226		
	Total	10.938	35			
Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.130	.762		1.483	.147
	Innovation	.727	.192	.545	3.790	.001
Predictors: (Constant), Innovation						
Dependent Variable: Customer Focus						

Source: Research Data, 2014

The results in table 5 indicate that there is a strong positive relationship between innovation and performance (R= .545) with 29.7 percent of variation in firm performance being explained by the variation in innovation (R square = 0.297). This means that 70 percent of variation in customer service is explained by factors other than innovation. The model was significant (F =14.362, p value <0.05).

Innovation (B =.727, t =3.790, P value= 0.001) significantly contribute to Customer focus. The model defining the relationship was thus represented as:

$$Y = 1.130 + 0.727 I$$

Where

Y=Customer focus

I= innovation

Table 6: Innovation and Earnings per Share

Model Summary						
Model		R	R Square	Adjusted R Square	Std. Error of the Estimate	
1		.425 ^a	.180	.156	11.21219	
ANOVA ^b						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	940.307	1	940.307	7.480	.010 ^a
	Residual	4274.248	34	125.713		
	Total	5214.554	35			
Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta		
1	(Constant)	-41.628	17.954		-2.319	.027
	Innovation	12.365	4.521	.425	2.735	.010
Predictors: (Constant), innovation						
Dependent Variable: earnings per share						

Source: Research Data, 2014

The results in table 6 indicate that there is a moderate positive relationship between innovation and performance ($R = .425$) with 18 percent of variation in firm performance being explained by innovation ($R^2 = 0.180$). This implies that 78 percent of variation in Earnings per share is explained by innovation. The model was significant ($F = 7.48$, p value < 0.05).

Innovation ($B = 12.365$, $t = 2.735$, P value = 0.010) significantly contribute to Earnings per share. The model defining the relationship was thus represented as:

$$Y = -41.628 + 12.365I$$

Where

Y = Earnings per share

I = innovation

Table 7: Innovation and Dividend Yield

Model Summary						
Model		R	R Square	Adjusted R Square	Std. Error of the Estimate	
1		.333 ^a	.111	.085	2.36153	
ANOVA ^b						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	23.717	1	23.717	4.253	.047 ^a
	Residual	189.611	34	5.577		
	Total	213.328	35			

Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.333 ^a	.111	.085	2.36153		
ANOVA ^b						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	23.717	1	23.717	4.253	.047 ^a
	Residual	189.611	34	5.577		
	Total	213.328	35			
b. Dependent Variable: dividend yield						
Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-5.259	3.781		-1.391	.173
	Innovation	1.964	.952	.333	2.062	.047
Predictors: (Constant), innovation						
Dependent Variable: dividend yield						

Source: Research Data, 2014

The results in table 7 indicate that there is a weak positive relationship between innovation and performance ($R = .333$) with 11.1 percent of variation in firm performance being explained by the variation in innovation ($R^2 = 0.111$). This implies that 89 per cent variation in dividend yield is explained by other factors other than innovation. The model was significant ($F = 4.253$, p value < 0.05).

Innovation ($B = 1.964$, $t = 2.062$, P value = 0.047) significantly contribute to dividend yield. The model defining the relationship was thus represented as:

$$Y = -5.259 + 1.964I$$

Where

Y = Dividend yield, I = innovation

A unit increase in innovation results in 1.964 increase in dividend yield.

From the foregoing, the research established a strong positive relationship between Innovation and employee engagement, with a high proportion of the employee engagement being explained by innovation (73 percent, $R^2 = 0.73$).

Specifically, Organizational innovation and product innovation showed significant contribution to employee engagement. Similar results were recorded for the relationship between Innovation and firm performance, although in this case only organization innovation had significant contribution to customer focus. The results of the relationship between Innovation and financial measures of performance were somehow mixed since the relationship was significant for dividend yield and EPS but not significant for Profit before tax.

These results are consistent with the results of a study among Small and medium Enterprises (SMEs) in Greece by Salavou (2002) that also found that product innovation was a significant determinant of business performance based on Return on Asset (ROA). Several other studies have examined the impact of different innovation forms and innovation dimensions on business performance. Yamin et al.(1997) specifically compared the impact of product innovation versus process innovation on business performance in terms of liquidity, leverage, activity and Return on Investment (ROI).

CONCLUSION

From the section above, the study established some findings. In terms of the relationship between innovation and firm performance, it was established that there was a strong positive relationship between Innovation and employee engagement, with a high proportion of the employee engagement being explained by innovation (73 percent, $R^2 = 0.73$). Specifically, Organizational innovation and product innovation showed significant contribution to employee engagement.

Similar results were recorded for the relationship between Innovation and Customer focus, although in this case only organization innovation had significant contribution to customer focus. The results of the relationship between Innovation and financial measures of performance were somehow mixed since the relationship was significant for dividend yield and EPS but not significant for Profit before tax.

The results indicate that the extent of sacrifice that employees would take to further the interest of the organization depends significantly on the ability of the organization to create new products or to improve their existing products, more so in a continuous manner (that is to innovate). It is apparent that by continuously improving their products and creating new products, organizations sustain their ability to be industry leaders. The positive influence of product innovation on employee engagement therefore implies that employees are proud to be associated with lead organizations and are by extension willing to take great sacrifice to further the interest of the company, if only to maintain this industry leadership position. Additionally and unsurprisingly, the nature of treatment employees receive from their organizations also encourages them to sacrifice for their organizations. Besides quality management and showing concern over employee welfare, companies can enhance employee engagement by continuously improving and recreating their products.

The revelation that organizational innovation positively and significantly affects customer focus imply that organizations that pay close attention to development of their staff with respect to customers and adopt top quality management practices tend to achieve greater focus on their customers.

Such organizations appear to be more interested in people development and satisfaction in general and tend to extend the compassionate treatment to their customers. There is a strong possibility that the staff improvement undertaken by such organizations is focused at providing quality services to their customers on whom they have greater focus anyway. Consequently, organizations that are keen on acquiring new customers as well as those keen on maintaining their customers should focus more on improving the quality of their staff and the manner of treatment they accord them.

This will possibly encourage staff to pursue the organizational goal of maintaining and acquiring business through impressive handling of customers. This finding underscores the need for investment in staff development as a step towards realizing company performance.

Combining all dimensions of innovation into one composite measure, we find that innovation has a positive and significant influence on employee engagement and customer focus.

Similarly, we also find a positive and significant influence of innovation on financial performance indicators such as earnings per share and dividend yield. Such positive influences could be a consequence of the competitive edge courtesy of the product innovations. They could also be a result of customer loyalty achieved via the customer focus that is embedded in the organizational innovation pursued by respective companies. These findings reinforce the need to pay close attention to product improvement/renewal and staff development and welfare as a means of enhancing company performance. Expenditure on staff development and welfare should therefore not be singularly be viewed as a cost to the company but should be understood as an investment that pays off in terms of company's financial performance.

These results indicate a support for Hypothesis H1 and are consistent with those of a previous research. Prajogo (2006) established a positive relationship between Innovation and performance. Deshpande et al (1993) in a study of Japanese firms indicated that innovation led to increase in firm performance in terms of market share, profit before tax and growth rate. The current study, however, did not establish significant positive relationship between innovation and profit before tax.

The study findings also offer credence to findings Salavou (2002) who carried out a study among SMEs operating in the food industry in Greece and also found that product innovation was a significant determinant of business performance based on Return on Asset (ROA). The moderating effect of organizational culture on the relationship between Innovation and firm performance was also examined. The study found out that organizational culture has a moderating effect on the relationship between innovation and employee engagement and also for the relationship between innovation and Customer Focus.

The results were however inconclusive because while there was a positive relationship between Innovation and dividend yield the model was insignificant while the one with Earnings per Share was significant. It was also established that the relationship between innovation and employee engagement was moderated by Leadership Style and the same was true for Customer Focus, Dividend yield, earnings per share but not for profit before tax.

IMPLICATION OF THE STUDY

Innovation has become an important element in enhancing competitive advantage of organizations so as to achieve their goals. Both private and public organizations as well as governments must now take keen interest in Innovation as a source of performance improvement.

With the Kenyan government's declared targets of achieving 10 percent growth year on year, there is need for a good understanding of innovation and how leadership and culture will play even as the government works on its innovation policies and procedures for implementation of new ideas. Western countries such as Canada have long developed Innovation policies within the government so as to address competitiveness against the onslaught by the Eastern bloc countries (such as china) in terms of business (The Innovation framework, 2004).

An Innovation study by Adegoke (2009) focusing on SMEs concluded that there was more impact to be gained from incremental rather than radical innovation within the SMEs in the UK. This study recommended the UK government to make informed decisions with respect to focus and allocation of resources appropriately. It also brought a useful message to large firms

seeking SMEs for takeover based on the latter's apparent focus on radical innovations. The result showed that a link between innovation and sales turnover growth in SMEs. This was an important contribution with important implications. It confirmed the importance of innovation and provided support for the encouragement of innovation in SMEs. Policy and government initiatives directed at SMEs tended to encourage the development of radical innovations (for example, grants for R&D) and entering new geographic markets (for example, the various programmers to encourage export).

From these results, it was recommended that since UK SMEs favor incremental over radical innovation, the policy initiatives could also be made to encourage SMEs to focus on incremental innovations rather than radical ones. The current study, having focused on NSE, will be a good basis for the formation of policies with respect to innovation from an African and specifically Kenyan perspective.

This study provided several implications for management in the organizations. Managers need to understand how their daily actions and the leadership decisions they make all the time will facilitate or inhibit the building of a culture that will enhance innovation, and which will in turn enhance performance of their firms. Specifically, the study established that that Leadership Style has a moderating effect on Innovation - employee engagement relationship. We noted that the effect of innovations on employee engagement is moderated by the inclusion of an additional variable measuring Leadership Style. We also found that in the studied firms, the achievement-oriented and directive Leadership Styles were predominant. In order to encourage employee engagement, company leadership should therefore set clear performance goals and continuously seek ways of supporting their staff to achieve these goals.

Furthermore, employee engagement can also be attained by a leadership system that clarifies pathways to goal achievement, sets standards against which employee performance is measured and employs a prudent use of reward and disciplinary action. It is indeed evident from these findings that such goal-oriented and reward based Leadership Style encourages employees to dedicate themselves to realization of organizational goals. Similarly, Leadership Style had a positive and a moderating effect on the relationship between innovations and customer focus. The inclusion of a measure of Leadership Style improves the variation in customer focus explained by the model by almost 30 percent. These are important for managers to know and keep in mind as they go about their daily duties; leveraging rewards to set the right culture and practicing Leadership Styles that will not inhibit innovations, thus improving firm performance.

One of the roles managers have to keep focusing on is encouraging a culture that will facilitate the doing of business and not inhibit the same. There, however, has been debate as to the practicability of managing culture. According to Ogbonna and Harris (1998), while managing culture is at best difficult and at worst impossible, changes to Leadership Styles are comparatively easily achieved. Literature is replete with quick fix' culture change programs designed to improve Firm Performance (see Deal and Kennedy, 1982), management focus may be directed towards implementing leadership change programs.

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