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## **INNOVATION AND MARKET MIX ON GROWTH OF EXPORT FIRMS: EMPIRICAL EVIDENCE FROM SELECTED EXPORT FIRMS IN KENYA**

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### **Abstract:**

The purpose of the study examined Innovation and Market Mix on Growth of Export Firms: Empirical Evidence from Selected Export Firms in Kenya. The study applied the survey research design. The target population consisted of 770 export firms registered by Export Promotion Council. The directory of Export Promotion Council was the source of data. The sample frame was stratified into seven sub-sectors, namely: agricultural, manufacturing, commercial crafts, services, mining, industrial and energy. The sample size was 169 export firms. Data was collected using structured questionnaires. The study adopted descriptive inferential data analysis and structure Equation Modelling. Findings: indicated that Innovativeness Split Model yielded Ratio Index (2.013),  $p < 0.05$  hence significant, Innovativeness Split Model has a weak significant; Ratio index (2.224)- less than 0.5. In comparison, Innovative and Marketing Mix Models differ indicates that constraining parameters worsened on overall model fit specifically on Innovativeness. The results further yielded a percentage error difference of 10% on the Innovativeness while percentage error difference of 1% on Marketing Mix indicating that Marketing Mix was effective than Innovativeness Model. Conclusion: Results indicate a strong relationship between Marketing Mix and Growth of Export Firms and a low correlation between Innovativeness and Growth of Export Firms. Marketing Mix loaded higher than Innovativeness in support of Growth of Export Firms. Recommendations: Firms need to focus on Marketing Mix, to carry out training and harness further research on Innovativeness. Contribution: were Marketing Mix Model\_A, Innovativeness\_B and the techniques employed in testing the model are evidence to add value on researches. Agricultural, manufacturing, commercial crafts, services, mining, industrial and energy.

**Keywords:** *Entrepreneurial orientation; Growth; Innovation; Marketing mix.*

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### **1. Introduction**

## 1.1. Background

Export-led growth is a trade and economic policy aiming to facilitate the industrialization process of Kenya with a comparative advantage. Yet, literature points to serious doubts with regard to promoting exports as a comprehensive development strategy among developing countries. The foregoing thus motivated undertaking of this study. The impact of globalization and liberalization on business environment, dictates that firms must manage the change by perceiving it as an opportunity to exploit to grow and compete (Dogan, 2017). Consumer expectations are changing very rapidly and have different preferences for the products they want. This pushes entrepreneurial firms to be highly innovative, to remain competitive. Ahmed and Shepherd (2010) averred that firms due to the dynamics in the business environment, firms have to change from monolithic and rigid organizational strategies and practices. According to Gassman et. al. (2012) the change in business environment forces firms to strategically use innovation to compete effectively in domestic and international markets, to gain competitive advantage, to adapt their strategies to changing market and customer demands, to create value and to achieve high performance. Arshi and Chugh (2013) contend that successful large firms regard innovation as a top priority and it is innovation that enabled them to sustain growth. In this study role of innovation for firms in creating value for growth is examined.

Cuervo et al., (2007) averred that entrepreneurship is an essential element for economic progress, as it manifests its fundamental importance in different ways; by identifying, assessing and exploiting business opportunities, creating new firms, making existing firms more dynamic and driving the economy forward through innovation and job creation. McKelvie et al., (2013) argued that an entrepreneurial firm is one that engages in product- market innovation. Adebite et al., (2007) posit that entrepreneurial orientation may be an important strategy for firms engaged in export trade to employ for sustainable growth. Innovativeness is one of strategic entrepreneurial orientation dimensions.

All enterprises go through different stages of growth, also commonly called as life cycle, though the terms used by different authors may vary, the events through which each enterprise passes remain more or less the same Gupta, et al., (2013). The scholars also aver as follows; some researchers suggest that each enterprise has to start, then grow while facing various challenges and crises, and finally mature and decline, while some suggest that the growth path followed by enterprises is linear or predictable. While others suggest, that growth is fairly an opportunistic term or unpredictable. The dimensions of growth are revenue generation, value addition, and expansion in terms of volume of the business. The elements of growth are market position, quality of product, and goodwill of the customers.

Gupta et al., (2013) also argued that most widely used framework for studying the growth of an enterprise has been the life cycle analysis. In life cycle models, an enterprise's growth is organic, and these assumed that this growth happens over a period in a linear phase. However, there are many researches suggesting that it may not be the case with every enterprise. Many firms do not take the linear path because it is not possible for each of those to progress through each stage. They can grow, stagnate, and decline in any order. In addition, these things can happen more than once and there is a possibility to reverse their steps.

This study adopted the firm growth theories of resource- based and life cycle model, as both theories demonstrate the processes that occur in firm growth. There are various resources available, which entrepreneurs utilized at different stages of firm growth. A firm requires; financial resources, human resources and equipment to operate and grow. Most firms grow as in life cycle. There is the start-up stage, take off stage, growth stage and decline stage. A firm is likely to pass through the stages, but not strictly following all the stages consistently. Some firms may grow and not experience decline, while some may experience decline in each and every stage.

## **1.2. Entrepreneurial Orientation**

According to Taylor (2013) entrepreneurial orientation involves an organization's willingness to innovate and rejuvenate its market offerings; to take risks by trying out new and uncertain products; and to be more proactive than its competitors in seeking out new marketplace opportunities. The scholar also stated that Miller (1993), posited that an entrepreneurial firm is the one that participates in product market innovation, undertakes risky ventures and develops proactive innovations ahead of competitors. The researcher argues that entrepreneurial orientation can be deduced as the processes, practices and decisions-making activities that lead to new venture creation and growth of business.

## **2. Literature Review**

### **2.1. Innovation**

Taylor (2013) contends that innovativeness is an important component of entrepreneurial orientation because it reflects an important means by which firms pursue new opportunities. The scholar stated that according to Lumpkin and Dess (1996) innovativeness may take several forms ranging from a willingness to try a new product line or experiment with a new advertising medium, to a focused effort to employ latest products or technological advances. The scholar also stated that Schumpeter (1934) regarded an entrepreneur as an innovator, whose actions introduces new firms, and products in markets and that Miller and Friesen (1982) posited that entrepreneurial firms were characterized by their willingness to boldly and regularly innovate, while taking considerable risks in their product- market strategies.

### **2.2. Marketing Mix**

Adewale et al., (2013) put it that marketing strategy can be defined as a method by which a firm attempt to reach its target markets. The scholars aver that marketing strategy starts with market research, in which needs and attitudes and competitors' products are assessed and continue through into advertising, promotion, distribution and where applicable, customer servicing, packaging, sales and distribution. Owomoyela et al., (2013) also see marketing strategy as a way of providing a quality product that satisfies consumer needs, offering affordable price and engaging in wider distribution and back it up with effective promotion strategy. Moghaddam et al., (2011) presented that marketing strategy is a procedure by which a company react to situations of competitive market and forces of market or react to environment and internal forces to enable the firm to achieve its objective and goals in target market. Marketing mix is a marketing strategy.

### 3. Methodology

#### 3.1. Design, Population, Sample Size, Validity and Reliability

The study adopted a cross sectional survey research design using quantitative and qualitative approaches. Quantitative approach used was the basis upon which deductive testing of hypotheses was undertaken, while a qualitative approach focused on inductive testing (Saunders *et al*, 2003). The instrument was a questionnaire containing both closed and open-ended questions. Open-ended questions were used to gather information on qualitative data.

The questionnaire was structured in such a way as to address specific objectives, or to test a hypothesis (Mugenda & Mugenda, 2003). The validity and reliability were established for the structured questionnaire used in the study. The validity of the instrument was established by complying with face validity, ensuring the following; the questionnaire measuring what it intended to measure.

#### 3.2. Sampling Technique

The sample for the study was identified by using Purposive and Stratified Random sampling techniques. Purposive sampling technique was used to determine export firms in the seven main sub-sectors based on 21 % of the total earnings from exports in the year 2014. Eldoret, Mombasa, Nairobi, Naivasha and Thika areas were purposively identified due to the high concentration of export firms, good infrastructure and ease of accessibility.

#### 3.3. Sample Size

It was adopted from a thesis by Achola, 2018. This research study comprised of a sampling frame of seven (7) main sub-sectors. The firms within the seven sub-sectors were limited to firms operating within Eldoret, Mombasa, Nairobi, Naivasha and Thika. These cities were selected because according to the records of the Export Promotion Council, most export firms in the country operate from the cities. The seven sub-sectors formed the sampling frame for this research study as indicated.

### 4. Data Analysis, Finding and Discussion

#### 4.1. Analysis By Regression: Innovativeness And Growth Of Export Firms

The standardized coefficients beta represents the relative contribution of each predictor variable in influencing the outcome, results indicate that Innovativeness is not able to contribute (-0.2425) while the t (value or t ratio) for the null hypothesis that  $t = (\text{unstdcoeff} / \text{Std. Error}) = 1.284$  since  $t < 1.96$ , Under the null hypothesis the predictor has no effect on the dependent variable (on Growth of Export Firms). Results clearly indicate that the null hypothesis is rejected. Innovativeness has no effect on Growth of Export Firms since  $| 1.28 | > 1.96$  hence accept the null hypothesis. A departure from p value ( $p < 0.05$ ) indicate that  $\text{sig} = .3219$  has no statistical significance hence the null hypothesis.

### 4.2. Analysis by Regression: Marketing Mix on Growth of Export Firms

The standardized coefficients beta represents the relative contribution of each predictor variable in influencing the outcome, results indicate that Marketing Mix is able to contribute (.32 = 32%) while the t (value or t ratio) for the null hypothesis that  $t = (\text{unstdcoeff} / \text{Std. Error}) = 3.305$ , since  $t > 1.96$ , Under the null hypothesis the predictor has effect on the dependent variable (Growth of Export Firms). Results clearly indicate that the null is rejected (so Marketing has effect on Growth of Export Firms) since  $|3.30| > 1.96$ . The null is rejected since the p-value (.002) is less than 0.05. Marketing Mix  $t = 3.305$  greater than (1.93).

### 4.3. Multiple Group Models Comparisons of Marketing Mix Model\_1 by Ratio Indices

Analysis done on unobserved variables; Marketing Mix and Growth of Export Firms included spitted model of: Marketing Mix-1, Marketing Mix-2, Marketing Mix-3, and Growth of Export Firms. After a random split into eight (Octal) sub model each path model was scored separately. The portion of the model that specifies how the observed variables depend on the unobserved, or latent, variables is called the measurement model. The current model has eight distinct measurement sub models the scores of the 3 split-model subtests, marketing mix -1, marketing mix -2, marketing mix -3 are hypothesized to depend on the single underlying latent variable known as marketing mix which is operationalized to depend on Growth of Export Firms. According to the model (figure 4.1), scores on the 8 subtests may still disagree, owing to the influence of measurement errors.

The study employed,  $\chi^2, df, p, \chi^2/df$ , TLI, AGFI, CFI, NFI, RMR, RMSEA AND GFI because they are independent of model complexity and sample size. results obtained indicate that: marketing mix octal split model\_1 yielded ratio index:  $\chi^2 (df = 82, n = 300) = 26.913, p = 0.013$  hence  $< 0.05$  which indicates that its significant. results indicate that ratio index  $\chi^2 / df = (3.2672)$  which is less than 5 in other words the model is a good fit .the author considered fit statistics to address the problems with chi-square, operate the  $(\chi^2/df)$  ratio, chi square in an attempt to make it less dependent on sample size .The relative chi-square should be 5 or less to reflect good fit or acceptable fit (Carmines & McIver, 1981).

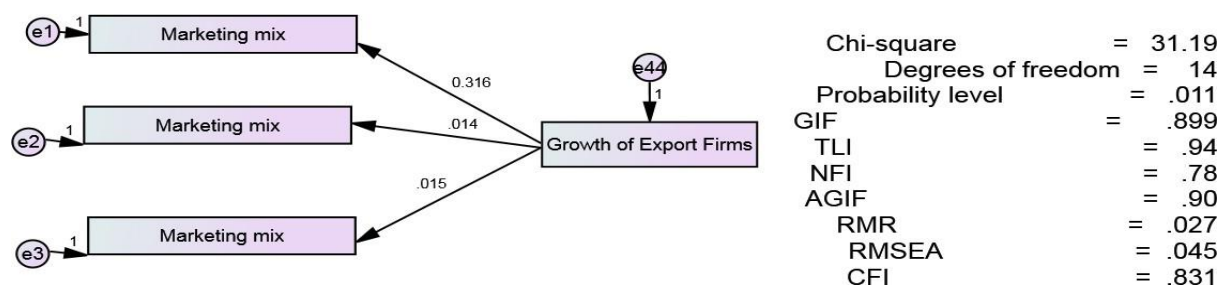


Figure 3.1: Marketing Mix Model (source: Achola, O., (2018). PhD Thesis

### 4.4. Multiple Group Model Comparisons of Innovativeness Model\_2 by Ratio Indices

Analysis of multiple group model Comparisons was employed on unobserved variables, Innovativeness Model\_2 and Growth of Export Firms tests: Innovativeness Model-1,

Innovativeness Model -2, and Innovativeness Model 3. After a random split into three sub model each path model was scored separately. The scores of the 3 split-model subtests, are hypothesized to depend on the single underlying latent variable Innovativeness which is also operationalised to depend on Growth of Export Firms. Scores as indicated in figure 3.2. Results obtained indicate that: Innovativeness Split Model yielded Ratio Index:  $X^2 (df = 9, N = 300) = 20.013, p = 0.000$  hence a departure from  $p < 0.05$  indicated a significant difference in other words Innovativeness Split Model is a strong significant of Growth of Export Firms; Results indicate that Ratio index  $X^2/df = (2.224)$  is less than 5 in other words the model is a good fit (Carmines & McIver, 1981). According to Desurvire (2004) to be paramount, based on different modal split models comparison which are based on real parameters. The results obtained are represented indicate a difference in Chi Square by modal split compared.

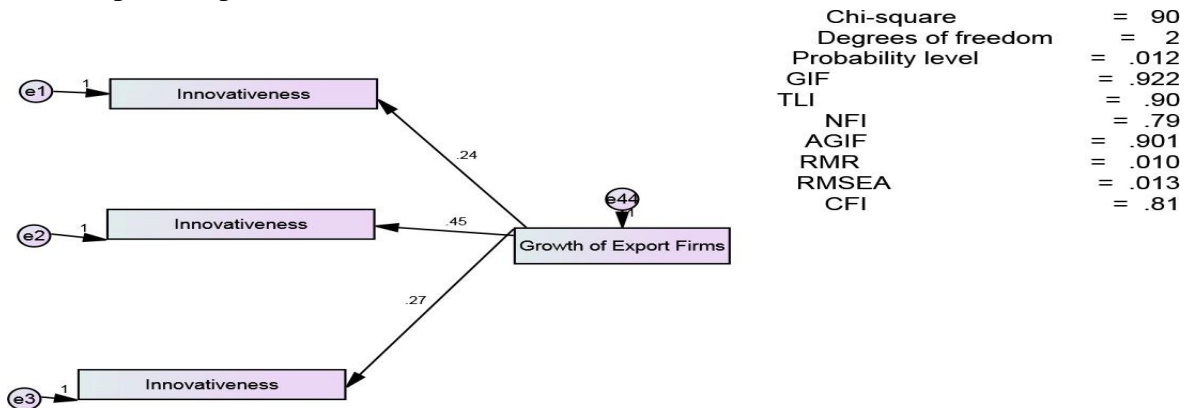


Figure 3.2: Innovativeness Model (source: Achola, O., 2018)

#### 4.5. Comparison of Innovative and Marketing Mix Model: Covariate, Factor Loading and

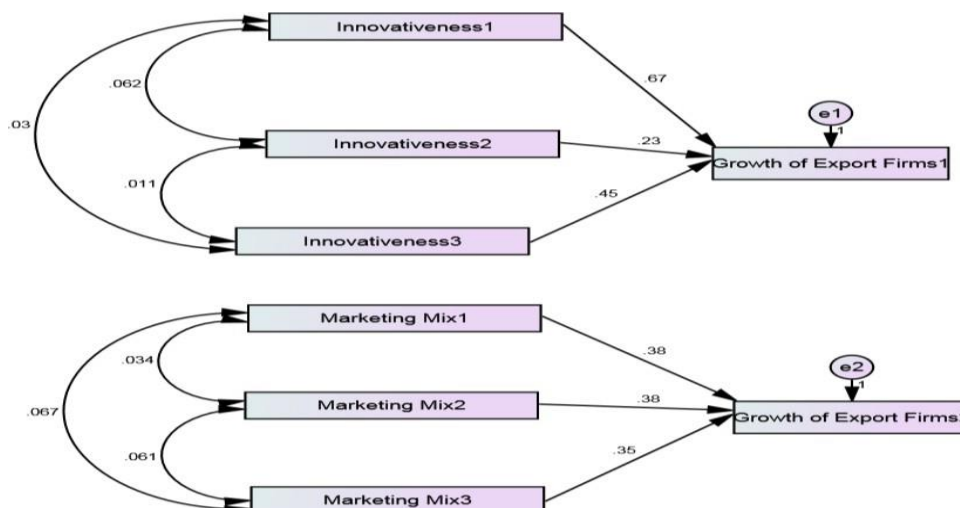


Figure 3.3: Innovative and Marketing Mix Models (source: Achola, O., (2018). PhD Thesis

#### 4.6. Summary

Finding indicate that the two models for Innovative and Marketing Mix Models differ indicates that constraining the parameters in the default model to obtain the equal Standardized Regression

Weight model results in a substantial worsening of overall model fit specifically on Innovative. The results further yielded a percentage error difference of 10% on the Innovative while percentage error difference of 1 % on Marketing Mix indicating that Marketing Mix basically can be reliable in sectors being applied being more effective than Innovative. Research results also rejected the equal Standardized Regression Weight for Innovative Model–B in favor of the Marketing Mix Model–A. The results yielded a percentage difference of 10% on the Innovative while 1 % o Marketing Mix indicating that Marketing Mix basically perform more effective than Innovative model on Growth of Export Firms.

Findings: indicated that Innovativeness Split Model yielded Ratio Index (20.013) probability < 0.05 indicated a significant difference, Innovativeness Split Model has a weak significant; Ratio index  $X^2/df = (2.224)$  is less than 5 compared to marketing mix, though termed as good fit. In comparison, Innovative and Marketing Mix Models differ indicates that constraining the parameters in a substantial worsening of overall model fit specifically on Innovative. The results further yielded a percentage error difference of 10% on the Innovative while percentage error difference of 1 % on Marketing Mix indicating that Marketing Mix was effective than Innovative Model in favor of the Marketing Mix Model. Contribution: Research contributed Marketing Mix Model\_A and Innovativeive\_B; also, the techniques employed in testing the model are evidence to add value for future scholars' researches. Conclusion: Results indicate a strong relationship between Marketing Mix and Growth of Export Firms and a low correlation between Innovative and Growth of Export Firms. Marketing Mix loaded higher than Innovative in support of Growth of Export Firms. Recommendations: Firms need to focus on Marketing Mix, to carry out training and harness further research on the Innovative.

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