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**INNOVATION CAPABILITY AND GROWTH OF MICRO AND SMALL
ENTERPRISES IN KENYA**

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DECLARATION


This thesis is my original work and has not been presented for a degree in any other University or for any other award.

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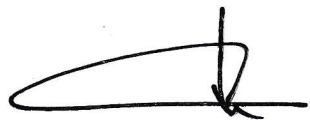
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ABSTRACT

In many countries, micro and small enterprises are recognized for their contribution towards economic growth, generation of employment opportunities and enhancing competitiveness. It is estimated that there were between 410 million and 473 million informal enterprises globally in 2015. These enterprises were estimated to contribute between 60 and 70 per cent of global gross domestic product by 2015. In spite of the prevalence of these enterprises and their large employment creation potential, only one per cent of these enterprises grow and graduate to employ more than ten employees globally. The rest either stagnate or die before reaching their third anniversary. In Kenya, it is estimated that there were 7.38 million micro and small enterprises, employing 14.1 million workers in 2015. These enterprises, however, continue to experience high mortality rates with an estimated 46 per cent of the enterprises closing down within their first year of operation. Thus, the numerous micro and small enterprises are characterized by high death rates and job churning alluding to the marginal nature of the jobs that they create. One growth challenge facing micro and small enterprises in Kenya is lack of market for their products and high local competition as cited by 32 per cent of the owners/operators of these enterprises. Innovation capability studies argue that a firm's innovation capability provides it with an opportunity to introduce new products and production processes thus opening up new market opportunities. Empirical evidence on the role that innovation plays in the growth of micro and small enterprises in Kenya, however, remains nascent. This study, therefore, investigated the role played by innovative capability toward growth of micro and small enterprises in Kenya. Specifically, the study analysed factors influencing innovation decisions, intensity, capability and how successful innovation influenced growth of micro and small enterprises. It made use of innovation capability indicators collected through a national cross-sectional survey of 575 micro and small enterprises in 2013. An augmented recursive econometric model was used to estimate the link between innovation capability and the growth of micro and small enterprises. The study found that the key factors influencing micro and small enterprise' innovation decisions, intensity and outcomes include innovation expenditure per worker, physical capital intensity, skilled labour especially for production workers, affiliation status, proportion of domestic ownership and age. On the effect of innovation on micro and small enterprises' growth, a key finding of the study was that there was no sufficient empirical evidence to support the idea that innovation capability influences micro and small enterprise growth in terms of employment. The study, however, found empirical evidence that links micro and small enterprises' innovative capability and the sales growth. The study, therefore, recommended that Government should provide technical training targeted at improving micro and small enterprise production workers skills; pursue strategies aimed at broadening micro and small enterprises access to capital; provide shared physical capital infrastructure through shared work sites and improve these enterprises access to information and technology communication. Meanwhile micro and small enterprises and other larger enterprises should endeavour to collaborate, acquire intellectual property rights for their innovations and offer targeted and tailor made training for their production level workers.