

INFLUENCE OF INNOVATIVENESS ON ORGANIZATIONAL PERFORMANCE AMONG INSURANCE COMPANIES IN KENYA

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ABSTRACT

This study sought to determine the influence of innovativeness on organizational performance among insurance companies in Kenya. The study adopted positivism research philosophy. Descriptive and explanatory research designs were used. The target population consisted of 453 management staff drawn from all the 55 registered insurance companies in Kenya. A sample size of 208 respondents drawn from lower, middle, and top level management was selected. Primary data was collected using semi-structured questionnaires containing both open and closed-ended questions. Data analysis was conducted using descriptive statistics such as mean score, frequencies and standard deviation and inferential analysis including regression and correlation analysis. The predictive power of the model was measured through R² while the fitness of the model was measured through F-statistic. Hypothesis testing was based on P-value of the variable coefficient at 0.05 significance

level. It was concluded that innovativeness had a significant influence on performance of insurance companies in Kenya. The study recommended that the management of insurance companies should ensure that they motivate their employees to introduce new business strategies from time to time, introduce new products and services on regular basis, introduce new technologies and stimulate new business processes. This will induce new business and better performance for the firm. Finally, the study suggested that other studies be conducted within the financial sector and other sectors in Kenya and among other insurance companies within the East African Community to determine if there are cross-border factors that influence the relationship between institutional competency mapping and performance of insurance companies.

Key words: Business strategies; Innovativeness; Insurance Companies; New Business Processes; New Products; New Technologies; Organizational Performance

INTRODUCTION

The complex and competitive environment in which today's firms operate coupled with technological advancement and globalization requires business organisations to devise strategies to enable them gain competitive advantage over competition. To achieve this there need for the management to determine the necessary competences (Spreitzer & Porath, 2012). Consequently, competency mapping has gained significant importance in today's competitive business environment (Mani, 2013). Yuvaraj and Maran (2013) postulated that competency mapping identifies the key competencies such as innovativeness for effective performance of a particular job. Competences are derived from specific job families within the organization such as strategy, relationships, innovativeness, leadership, risk-taking, decision-making and emotional intelligence (Müller & Turner, 2010). This study focuses on innovativeness as a competence aimed at establishing how it influences the performance of a firm.

Semadeni and Anderson (2010) defined innovativeness as departure from traditional management principles, processes, and practices that significantly alters the way work is performed. Further, Gunday, lusoy, Kilic and Alpkcan (2011) observed that innovation has turned into an attractive area of study for researchers aimed at categorizing and investigating its impact on performance driven by its practical relevance. It is noted that innovation provide firms with a strategic orientation to overcome the problems they encounter while striving to achieve superior performance. Four different innovation types are introduced as product innovation, process innovation, marketing innovation and organizational innovation (Kuratko, Hornsby & Hayton, 2015). According to Hall (2010), innovation plays a significant role in creating the differences of performance and competition among firms, regions and even countries. For instance, innovative firms have higher productivity than the less-innovative ones making innovativeness a core competence.

According to the Insurance Regulatory Authority (IRA), (2016) the insurance industry in Kenya has faced turbulences in the last few years where some firms have been compelled to exit the market. Companies such as Blue Shield Insurance, Kenya National Assurance Company (KNAC), Lakestar Insurance, Trinity Life Assurance Company and United Insurance have already closed down. Further, it is noted that the industry suffers low penetration rate of below 3%. Researchers such as Ngugi (2007), Ndura (2010), Alipour (2012), Ntinyari (2014) and Mwangi and Murigu (2015) further indicates that these firms have been adversely affected by changes in interest rates, unforeseen natural disasters, mispriced policies, legal and political factors as well as fraudulent claims aided by unscrupulous employees. Moreover, Ntinyari (2014) postulated that insurance companies have collapsed due to poor management of their employees and inadequate human resource capacities. Literature also supports that insurance companies do not consciously map innovativeness of their staff to enable them develop the prerequisite skills for improving organizational performance. This study therefore sought to determine the influence of innovativeness on organizational performance among insurance companies in Kenya.

This study was anchored on the Resource-Based View (RBV) theory associated with Wernerfelt (1984; 1995) and Barney (1986) which argues that a firm's performance is dependent on resources held and controlled by the firm (Taher, 2012). The theory asserts that for resources to accord the firm a competitive advantage and greater performance, they must be heterogeneous, immobile, inimitable, and valuable (Barney, 2014). The theory was found relevant in anchoring this study because it postulates and supports that for resources to accord competitive advantage and superior performance to the firm, the resources must be unique, immobile and inimitable. Innovativeness is viewed in this study as a unique characteristic entrenched in an individual and cannot be copied by competitors. Consequently, uniqueness may be achieved through innovation to ensure that the organisation has unique processes, knowledge and intellectual property that are not transferable to competitors.

Literature shows that numerous studies have been conducted on the concepts of innovativeness and organisation performance. For instance, Ingenbleek, Frambach and Verhallen (2010) showed that product innovation has a strong effect on new product performance. However, the study only concentrated on product innovation as opposed to

innovativeness on the part of the management. Semadeni and Anderson (2010) findings indicated that although an innovator's organization-level characteristics increase imitation, offering-level characteristics decrease imitation. In addition, organization and offering-level characteristics interact, resulting in different imitation outcomes. Rouwmaat (2012) concluded that imitation barriers and process innovation is nuanced and changes per individual case. Further, the study showed that firm's characteristics directly influence the orchestration of resources in a firm. Resource orchestration always directly influences the generated imitation barriers.

Hang (2014) studied strategic management of innovation within SMEs and showed that formal innovation management including the innovation strategy, portfolio management, organisational culture and commercialisation, strengthens the owner-managers' confidence over their potential returns. The study also found that young and small firms tend to engage more actively into radical innovation. Mugo (2012) studied the effect of financial innovation on the growth of Micro Finance Institutions (MFIs) in Kenya and revealed that most MFIs have innovated new services such as mobile banking, business accounts, SME loans, school fees loans, financial trainings and partnerships. Other MFIs have networked their offices, opened new branches and innovated new products in a bid to grow their firms.

Wanjiku (2014) studied the relationship between innovation and performance of Micro and Small Enterprises (MSEs) in Kiambu Town and suggested that process, product, positioning and paradigm types of innovation had a positive relationship with the performance of some business types of the MSEs in Kiambu Town. Additionally, Musya (2016) sought to establish the determinants of innovation strategies among Savings and Credit Co-operative Societies (SACCOS) in Mombasa County, Kenya. The study concluded that top leaders influence, organization structure and resource, and industry competition factors are the main determinants of innovation strategies that influence innovation at managerial, organizational and environmental levels respectively.

From the reviewed literature, it is evident that innovation has received considerable attention among previous scholars. However, most scholars concentrated on product innovation, process innovation or technological innovation. Most of the studies conducted have considered innovation as a general construct and have failed to recognise the role of mapping innovativeness competence on the side of the management as a key competence driving performance. Moreover, the study finds that previous scholarships have failed to show the relationship that exists between innovative management and firm's performance especially in the insurance industry.

MATERIALS AND METHODS

This study adopted a positivism research philosophy which maintains that knowledge should be based on facts and no abstractions, thus knowledge is established based on observations and experiments. Under this philosophy, the researcher and the researched are independent of each other and therefore the researcher has no influence whatsoever on the researched. The study adopted descriptive survey and explanatory research designs. Descriptive survey design allows the researcher to assess the study variables. On the other hand explanatory research

design aids the researcher in assessing the effects of specific changes in the predictor variable on the changes in the regressed variable in order to explain the pattern in the relationship established (Sekaran & Bougie, 2016).

The population for the study was 453 consisting of 64 lower, 127 middle, and 262 top level management staff of all the 55 registered insurance companies in Kenya regulated by IRA from which a sample size of 208 participants was selected using stratified sampling technique, based on Kothari (2004) formula. The study used both primary and secondary data. Primary data was collected using semi-structured questionnaires containing both open and closed-ended questions while secondary data was obtained using a secondary data collection sheet from the company financial statements and the Insurance Regulatory Authority.

The study used descriptive statistics and inferential analysis with the help of SPSS software to carry out data analysis. Descriptive statistics specifically frequencies, the mean, and standard deviation were computed. Descriptive statistics allows the researcher come up meaningful scores that uses few indices (Taylor, Bogdan & DeVault, 2015). Inferential data analysis was conducted using Pearson correlation coefficient and simple linear regression analysis. The coefficient of determination (R^2) was used to determine if the model was significant and the extent to which each of the independent variables explained the changes in the dependent variable. F-statistic was determined at a confidence level of 95% to determine if a significant relationship existed between institutional competency mapping and performance of insurance companies in Kenya. Analysed data was presented using tables. Hypothesis testing was based on regression analysis results with the decision on the significance of the study variable being based on P-value at 5% significance level.

RESULTS AND DISCUSSIONS

The study targeted a sample size of 208 respondents drawn from top level, middle level and lower level management of the 55 registered insurance companies in Kenya. Out of the 208 questionnaires distributed, 153 questionnaires were dully filled and returned forming a response rate of 73.6%. The response rate was summarised as shown in Table 1.

Table 1: Response Rate

	Frequency	Percentage
Response	153	73.6%
Non response	55	26.4%
Total	208	100.0%

The results in Table 1 above shows that the response rate was 73.6% while the non-response rate was 26.4%. According to Mugenda and Mugenda (2003), a response level of 50% is sufficient for analysis and reporting. He further states that a response percentage of 60% is good while a response rate of 70% and above is excellent. Since the response rate for this study was above 70% the study found it adequate to permit data analysis to be conducted.

Demographic Results

The study sought to establish the background information of the respondents on the basis of the gender of the respondent, number of years worked in the current organization and highest level of education. The results were as shown in Table 2.

Table 2: Demographic Information of the Respondents

Gender of the Respondent		
	Frequency	Percentage
Male	84	54.9%
Female	69	45.1%
Total	153	100.0%
Position Held in the Organization		
Management level	Frequency	Percentage
Top level	18	11.8%
Middle level	47	30.7%
Lower level	88	57.5%
Total	153	100.0%
Number of Years Worked		
	Frequency	Percentage
Less than 1 year	9	5.9%
Between 1-5 years	46	30.1%
Between 6-10 years	46	30.1%
Over 10 years	52	34.0%
Total	153	100.0%
Highest Level of Education		
	Frequency	Percentage
Certificate	3	2.0%
Diploma	37	24.2%
Undergraduate	100	65.4%
Postgraduate	13	8.5%
Total	153	100.0%

The results posted in Table 2 shows that among the 153 respondents, 54.9% (84) were male while 45.1% (69) were female. These results shows that majority of the management staff in the insurance industry in Kenya are male. The results also indicates that majority of the respondents as shown by 11.8% (18) were in the top management level, 30.7% (47) were in the middle management level while 57.5% (88) were in the lower management level. This implies that majority of the management staff who were available to respond to the research questionnaire were from the lower management level. The results may be attributed to the fact that most of the top management staff have a busy schedule and had no ample time to respond to the research instrument. However, since the lower management staff are in direct contact with the employees and other stakeholders, the study found the data to be authentic and reliable.

Additionally, the results of the study shows that most of the respondents 34.0% (52) had worked in the current insurance company for over 10 years, 30.1% (46) had worked in the current insurance company for between 6-10 years, 30.1% (46) had worked in the current insurance company for between 1-5 years while 5.9% (9) had only worked in the current insurance company for less than 1 year. These results shows that majority of the respondents had over 10 years of experience in the current firm which implies that they were well conversant with the company operations and could therefore give informed opinion about the firm.

Regarding the highest level of education, the results in table 2 indicates that most of the respondents 65.4% (100) had a bachelor’s degree, 24.2% (37) held a diploma, 8.5% (13) had postgraduate qualification and only 2.0% (3) had a certificate as their highest level of qualification. The results thus shows that most of the management staff had at least a bachelor’s degree implying that they had adequate academic qualification to understand the constructs in the study and therefore the study could rely on their opinions to make inferences.

Descriptive Results

The descriptive results were as presented in Table 3.

Table 3: Descriptive Statistics for Innovativeness

	N	Minimum	Maximum	Mean	Std. Deviation
The management of this company comes up with new strategies from time to time	153	1	5	4.05	1.005
This company always review the existing business processes to establish their effectiveness	153	1	5	3.63	1.175

The management of this company stimulates and develops new business processes	153	1	5	3.60	1.248
We pride to always introduce new technologies before our competitors	153	1	5	3.26	1.146
Our company always acquire the most up to date technologies	153	1	5	3.24	1.209
Our staff always recommend new strategies	153	1	5	3.16	1.077
Our company has tasked specific individuals and units to develop new products and services on regular basis.	153	1	5	3.08	1.217
Our research and development docket is the most innovative.	153	1	5	3.08	1.144
This company strongly encourage development of new products and services	153	1	5	3.01	1.227
We encourage our staff to suggest strategies that would help the firm address emerging issues	153	1	5	2.97	1.222
Aggregate Score				3.308	1.167

The results indicates that most of the respondents believed to a great extent that the management of insurance companies in Kenya comes up with new strategies from time to time with a mean score of 4.05 and a standard deviation of 1.005. The results also shows that insurance companies in Kenya always review the existing business processes to establish their effectiveness and stimulates and develops new business processes to a great extent with a mean score of 3.63 and 3.60 with an associated standard deviation of 1.175 and 1.248 respectively. In addition, it was noted that most insurance companies in Kenya pride to always introduce new technologies before competitors, always acquire the most up to date technologies, have specific individuals and units tasked to develop new products and services on regular basis, their research and development dockets are the most innovative, strongly encourage development of new products and services and encourage their staff to suggest strategies that would help the firm address emerging issues but only to a moderate extent as

shown by mean scores of 3.26, 3.24, 3.16, 3.08, 3.08, 3.01 and 2.97 respectively. The associated standard deviations were 1.146, 1.209, 1.077, 1.217, 1.144, 1.227 and 1.222 respectively which depicts that there were high variations in the way insurance companies adopted innovativeness to influence their performance. On aggregate, the variable shows a mean score of 3.308 and a standard deviation of 1.167 which implies that although insurance companies considered innovativeness as a relevant competence amongst their staff the variable only had a moderate relevance in influencing the performance of insurance companies in Kenya.

The respondents were also required to rate the general level of innovation in their company and the results posted correlated with the descriptive results for the variable as shown in Table 4.

Table 4: Rating of the General Level of Innovation

	Frequency	Percent
Poor	24	15.7%
Good	52	34.0%
Satisfactory	59	38.6%
Excellent	18	11.8%
Total	153	100.0%

As revealed in Table 4, majority of the respondents as shown by 38.6% (59) indicated that the level of innovation in their company was satisfactory, 34.0% (52) believed that it was good 15.7% (24) noted that it was poor while only 11.8% (18) showed confidence that the level of innovation in their company was excellent. These results tallied with the descriptive results which showed that most insurance companies in Kenya considered innovativeness relevant only to a moderate extent.

The respondents were further required to rate the importance of development of new products and services, implementation of new strategies, introduction of new technologies and stimulating new business processes as aspects of innovativeness. The results were as shown in Table 5.

Table 5: Descriptive Statistics on Importance of Innovativeness

	N	Minimum	Maximum	Mean	Std. Deviation
Implementation of New Strategies	153	2	5	4.31	.621
Stimulating new business processes	153	1	5	4.20	.795
Introduction of New Technologies	153	1	5	4.18	.736
Development of New Products and Services	153	2	5	4.05	.809
Aggregate Score				4.185	.7403

The results in Table 5 shows that all the aspects of innovativeness (development of new products and services, implementation of new strategies, introduction of new technologies and stimulating new business processes) were important among the insurance companies in Kenya with an aggregate mean score of 4.185. Individually, implementation of new strategies was the most important aspect with a mean score of 4.31, followed by stimulating new business processes with a mean score of 4.20, introduction of new technologies with a mean score of 4.18 and development of new products and services with a mean score of 4.05

The results posted in this study shows mixed relationship with the existing empirical literature. For instance, the study by Wanjiku (2014) showed that process, product, positioning and paradigm types of innovation had a positive relationship with the performance of some business types of the MSEs in Kiambu Town which was similar to the results posted in this study. Similarly, Mugo (2012) concluded that financial innovation by MFIs lead to an aggregate growth of the firm. Since better firm’s performance may lead to growth, the study finds congruence in the results posted by the two studies. However, the results in the study contradicted the conclusions reached by Ingenbleek, Frambach and Verhallen (2010) who showed that value-informed pricing has a strong effect on new product performance and Hang (2014) who showed that formal innovation management including the innovation strategy, portfolio management, organisational culture and commercialisation, strengthens the owner-managers’ confidence over their potential returns.

Correlation Analysis

In this section the study sought to determine if the variables in the study were correlated with each other. To do this Karl Pearson’s correlation was conducted. The decision on the strength of correlation coefficient was based on Dancy and Reidy (2004) who stated that if correlation coefficient is equal to 1, then there is perfect correlation, if correlation coefficient lies between 0.7-0.9, there is a strong correlation, if correlation coefficient lies between 0.4-0.6 there is moderate extent correlation, if correlation coefficient lies between 0.1-0.3, there is

weak correlation and if correlation coefficient is 0, then there is no correlation. The results of the correlation analysis were as shown in Table 6.

Table 6: Correlations Coefficients

		Organisation Performance	Innovativeness
Organisation Performance	Pearson Correlation	1	.096
	Sig. (2-tailed)		.239
	N	153	153
Innovativeness	Pearson Correlation	.096	1
	Sig. (2-tailed)	.239	
	N	153	153

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

The results in Table 6 shows that the correlation coefficient between organisation performance and innovativeness was 0.096. The results indicates that there was a weak positive correlation between organisation performance and innovativeness. However the relationship was not significant as shown by a significance level of 0.239.

Test of Hypothesis

The study sought to determine the influence of innovativeness on the performance of insurance companies in Kenya. To achieve the objective, the study tested the null hypothesis that innovativeness has no significant influence on organizational performance among insurance companies in Kenya against the alternative hypothesis was that innovativeness has a significant influence on organizational performance among insurance companies in Kenya. Simple linear regression analysis was conducted in which organisation performance was regressed on innovativeness and the results were as shown in Table 7.

Table 7: Regression Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.492 ^a	.242	.237	.764		
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	28.073	1	28.073	48.126	.009 ^b
	Residual	88.082	151	.583		
	Total	116.155	152			
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.766	.496		5.574	.000
	Innovativeness	.526	.148	.492	3.554	.009

- a. Dependent Variable: Organisation Performance
- b. Predictors: (Constant), Innovativeness

The adjusted R square (R²) for the model was 0.237 implying that innovativeness predicted 23.7% of the changes in the performance of insurance companies in Kenya and that 76.3% of the variations were caused by other variables other than innovativeness. The F-test statistic for the model was 48.126 > 3.903. Similarly, the P-value for the F-test statistic was 0.009 < 0.05. Based on these results, the study concluded that the model was fit. The model was summarised as follows;

$$\text{Organisation Performance} = 2.766 + 0.526 \text{ Innovativeness} + \epsilon$$

The coefficients for the constant and innovativeness were 2.766 and 0.526 respectively. This means that holding all other factors constant at zero (0), the performance of insurance companies in Kenya was equal to 2.766. At the same time, controlling for all other variables a unit increase in innovativeness leads to an increase in performance of insurance companies in Kenya by 0.526. The P-values of innovativeness was 0.009 < 0.05 and therefore it was concluded that innovativeness was significant. Consequently, the study rejected the null hypothesis and concluded that innovativeness has a significant influence on organizational performance among insurance companies in Kenya.

The results found on this hypothesis were in line with the existing empirical literature which posits that innovation provide firms a strategic orientation to overcome the problems they encounter while striving to achieve superior performance (Kuratko, Hornsby & Hayton, 2015). Semadeni and Anderson (2010) also indicated that although an innovator's organization-level characteristics increase imitation, offering-level characteristics decrease imitation which in the long run tend to increase firm's performance. Studying strategic management of innovation within SMEs Hang (2014) showed that formal innovation management including the innovation strategy, portfolio management, organisational culture and commercialisation, strengthens the owner-managers' confidence over their potential returns. Thus with increased cooperation between owner and managers, there is a likelihood that firm's performance will increase as shown in this study. Additionally, Mugo (2012) concluded that financial innovation by MFIs led to an aggregate growth of the firm while Wanjiku (2014) showed that process, product, positioning and paradigm innovation had a positive relationship with the performance of some business types of the MSEs in Kiambu Town.

CONCLUSION

The objective of the study was to determine the influence of innovativeness on the performance of insurance companies in Kenya. The study concluded that while, innovativeness only showed weak correlation with performance of insurance companies, it had significant influence on the performance. This was demonstrated by adoption of new business strategies from time to time, introduction of new products and services on a regular basis, introduction of new technologies and stimulation of new business processes. The

mapping of the ability of the management staff to achieve these indicators of innovativeness clearly demonstrates that they influence performance of insurance companies in Kenya.

These results concurred with descriptive statistics which showed that the management of insurance companies in Kenya comes up with new strategies from time to time and that insurance companies in Kenya always review the existing business processes to establish their effectiveness and stimulate and develop new business processes. This portrays the management realisation of the need to be innovative by introducing new products, services and strategies so as to propel organisations performance to higher levels.

The results were also in agreement with the postulations of the Resource-Based View (RBV) theory of the firm which is based on the assumption that for resources to generate superior performance they must be heterogeneous and immobile. Heterogeneity in this sense implies that the skills, capabilities and other resources that organizations possess differ from one organization to the other. On the other hand, resource immobility implies that resources are not mobile and cannot move from one firm to the other in the short-run. Intangible resources, such as brand, equity, processes, knowledge and intellectual property are usually assumed to be immobile. Since innovativeness is inherent in specific individuals they are therefore heterogeneous and immobile and can thus help insurance companies produce greater results.

RECOMMENDATIONS

Based on the conclusions reached, the study recommended that the management of insurance companies should ensure that they motivate their employees to introduce new business strategies from time to time, introduce new products and services on regular basis, introduce new technologies and stimulate new business processes. This will induce new business and better performance for the firm.

Since the conclusions reached in this study are based on data collected from insurance companies in Kenya, the findings are only applicable to insurance companies in Kenya and may suffer generalizability constraint. Thus the study suggests that other studies be conducted in other firms within the financial sector and other sectors in Kenya and among other insurance companies within the East African Community to determine if there are cross-border factors that influence the relationship between institutional competency mapping and performance of insurance companies.

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