

Innovation Orientation And The Performance Of Insurance Companies In Kenya

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***Abstract:** Previous studies on innovation have analyzed the concept as a catalyst for competitive advantage as well as focusing on a singular innovation's effect on output. There exists a gap as studies in establishing the combined effect of the three types of innovation on performance of insurance industry thereby adding to the existing literature on innovation. This study sought to evaluate the correlation between innovation orientation and the performance in insurance companies in Kenya. Specifically, the study examined the effect of product innovation, process innovation, and market innovation on the performance in terms of gross premium and market share in the Kenyan insurance industry. The study adopted a framework to examine the relationship between the three types of innovations adapted descriptive and causal research designs. The target population was 406 heads of relevant departments in the 53 registered insurance companies and 5 reinsurance companies. A sample of 197 respondents was selected for the study, and data was collected using semi-structured questionnaire. Multiple regression was used to analyze the data. The results indicated that product innovation, process innovation and market innovation have a positive and significant effect on both the gross premium and market share of insurance firms in Kenya. Regulatory frame work played an insignificant moderating role on the relationship between the independent variables and the dependent variables outlined in this study. Based on the findings, it was concluded that more resources should be allocated towards innovation in a bid to improve performance. The study further concluded that the firms should focus on penetrating new market segments based on the Kenyans' economic structure in order to increase insurance penetration. Product innovation should be geared towards introduction of insurance policies aligned towards the prevalent economic activities and Kenya's GDP major contributors, notably agriculture in the rural areas.*

***Keywords:** product innovation, process innovation, market innovation, gross premium, market share*

I. INTRODUCTION

Innovation Orientation is the purposeful strategic stance taken by a firm in the utilization of knowledge and is geared towards the promotion of innovative culture and processes. It is the crucial component of any entrepreneurial venture and therefore an important aspect of entrepreneurial marketing. Innovation has been linked to improved performance and survival strategy for businesses in dynamic environment. An emerging trend in the global insurance market is a transformation to digital business models, which is an aspect of innovation for the changing times. This is because

insurance companies are increasingly relying on the internet of things and collaboration between traditional and Insure-Tech to provide individualized premiums and usage-based coverage, will lead to new business models and revenue streams, higher profitability and reduced operational costs (Statista, 2020). According to Deloitte (2020), firms in the region are facing competition threat in that they are encroaching the territory of the incumbents, yet penetration rates in each market is low. There is also the challenge of poor marketing strategies and complex products, high cost of doing business and a slow-down economy due to covid-19. Deloitte (2020) suggests that insurance firms should focus on

customer experience, where they should focus on innovative products and services. They should also try to change the negative insurance perception which has lowered penetration rate (Deloitte, 2020).

The most popular insurance products in Kenya for both individual and corporates are mainly personal accident cover, fire industrial policies as well as motor vehicle and medical covers, (AKI, 2018). An analysis shows that these are the compulsory covers by law and portrays a poor perception towards personal insurance cover in general (PWC, 2020). Low penetration of insurance in the Kenyan market, relative to other similar markets is due to; a negative belief among Kenyans towards financial reserves; low liquidity amongst the population, poverty levels; Insufficient tax motivation that could otherwise drive the uptake of insurance products among middle income earners; and the observed low reliability of the industry in the view of the masses specifically with respect to paying off claims (AKI, 2018; PWC, 2021).

STATEMENT OF THE PROBLEM

Due to very competitive environment, insurance firms are under increasing pressure to be more agile, proactive and innovative in their marketing strategies. Instead of the planned, linear, rational approach of conventional marketing, an entrepreneurially creative response to marketing is required. Given the present competitive situation in this industry, traditional method of marketing will not be effective (Deloitte, 2020). Firms need to be more proactive and come up with more innovative methods of marketing such as entrepreneurial marketing. From the studies examined, the relationship between innovation orientation and the performance of insurance firms in Kenya has not been clearly analyzed and established. Furthermore, the concept of innovation orientation has been tested in different sectors of the economy and different regions globally but there is a lack of consensus on the relationship between the independent variables and the dependent variable (Naude and Chiweshe, 2017; Mburu and Achocki (2017). The three aspects of innovation that is, market, product and process innovation are yet to be analyzed comprehensively for the insurance industry therefore a gap exists in establishing the combined effect on the industry. Thus the need for a comprehensive study on innovation orientation variables and the performance of insurance firms in terms of market share and gross premium.

The main objective of the study is to evaluate the effect of innovation orientation on performance (market share and gross premium) of insurance firms in Kenya. The specific objectives are as below:

- ✓ To examine the influence of product innovation on the performance (market share and gross premium) of insurance firms in Kenya
- ✓ To analyze the effect of processes innovation on the performance (market share and gross premium) of insurance firms in Kenya
- ✓ To investigate to impact of market innovation) on the performance (market share and gross premium) of insurance firms in Kenya
- ✓ To determine whether regulatory framework has any moderating effect on the relationship between innovation

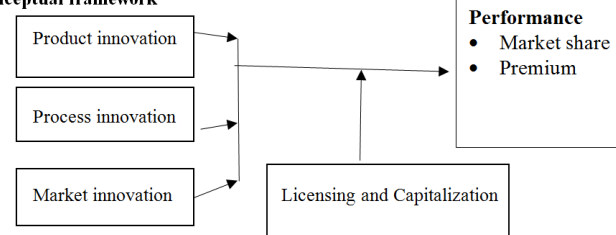
variables and the performance (market share and gross premium) of insurance firms in Kenya

II. LITERATURE REVIEW

INNOVATION ORIENTATION THEORY

Innovation is the introduction of a new product or a new process or a new market by an individual of an organization. It is a result of a combination knowledge from both the external and internal environments. External environment sources consist of market activities by rival firms, changing customer preferences and existing regulatory framework. Innovation may also involve improvements on existing products and services upon interaction of related firms (Klette and Griliches, 2000; Beugelsdijck and Cornet, 2001). Innovation does not end with the introduction but continues with creation of value for the consumer and the consumption and utilization of the product or service, further, for a new market the process continues with the satisfaction of the new needs. Innovation value chain concept comprises of the links and feedback loops that form a continuous cycle that focuses on the firm innovation process. Firms are motivated to engage in the process by competition actions and to take advantage of opportunities in the market, though it is a risky affair and the returns are unknown, (Šakalytė, 2013). This construct was proposed by Hansen and Birkinshaw (2007) who suggested three phases for this process; idea generation, idea conversion and lastly, diffusion. This theory suggests that innovation should be viewed as a cycle that should result in value for the customer and profit for the firm and not just as just a new product or service. It therefore allows the firm to strengthen all links that would otherwise be ineffective.

Conceptual framework



EMPIRICAL LITERATURE REVIEW

According to Namusonge, Muturi and Oliniran, (2016), innovation orientation refers to an organization's inclination to commit to and endorse new ideas, originality, assess and verify, and inventive processes that result in original products. When faced with turbulent business environment, limited resources, aggressive competitors, and fluctuating customer preferences, innovation becomes a solution for survival. According to Druker (2002), there are eight types of innovation that can be carried out in a firm. They include: Strategy Innovation, Business Model Innovation, Product/Service Innovation, Process Innovation, Marketing Innovation, Technology Innovation, Supply Chain innovation, Organizational/People Innovation. Schumpeter (1934; 1942) emphasized innovation role in the entrepreneurial process. He

stated that this was a process of “creative destruction” where disruption of existing market structures by introduction of new goods or service, which shifted resources away from existing firms, created wealth and caused new firms to grow. Namusonge et al (2016) contends that innovation is a means, by which entrepreneurs take advantage of change as an opportunity for a different business or a different service. Innovativeness can then be defined as the extent to which one firm is faster in implementing new ideas than the other contemporaries.

Today, firms operate in such cut throat competition that their only option is to innovate or die and to survive they are forced to choose the latter, (Madhoushi, Sadati, Delavari, Mehdiv and Mihandost, (2011). The foundation of any successful entrepreneurial venture is notable innovation which may either be in the form of technological, product or market innovation. Any of these if adopted, represent the innovation dimension applied by the firm and are used to take advantage of arising opportunities in the market, (Muthoga, 2018). According to Camison and Lopez (2010), product innovation is one of the important sources of competitive advantage to the firm as it ensures quality products contribute to good performance. A study by Espallardo and Ballester (2009) on 744 Spanish-firm samples confirms that there is a positive impact of innovation on firm performance. Another study that focused on product, market and process innovation posited that market intelligence and new products are more positively associated with the performance of a family firm that technological knowhow, (Alberti and Pizzurno, 2013).

INNOVATION ORIENTATION AND FIRM PERFORMANCE

One of the endearing and crucial factors of entrepreneurial firms is the continuous pursuit of and the adoption of innovations albeit the high risks involved in them. Though it has been noted that the failure rate of innovations is as high 50%, this does not deter entrepreneurial firms from innovating, and in fact may be seen to be the a deciding factor in profits allocation, (Wong and Tong, 2012). The entrepreneurial extent of an organization in risk taking, creating new products, production processes and markets has been observed to result to superior performance in the firms and enterprises in the developed economies, (Rauch, Wilklund, Frese and Lumpkin, 2009; Wales and McKelvie, 2011). Schumpeter posited that entrepreneurship is based on new combinations of resources such as the discovery of new products, or the new uses for existing products; application on new production processes or discovery of new sources of raw materials; discovery and exploitation of new markets, thereby raising the bar in market that destabilizes the status quo, (Auerswald, 2008).

It has been observed that the extent to which innovation orientation is applied is essential for the success of the firm, (Kropp, and Zolin, 2005). Essentially, entrepreneurial firms are necessitated by, and thrive in turbulent environments characterized by volatile market factors such as ever changing customer preferences, frequent obsolescence of technology, and cut throat competition, (Heirati, O'Cass, Schoefer and Siahtiri, 2016). Consequently, innovation orientation is a pre

requisite for product development to survive in these dynamic environments. It has been argued that the level of environmental dynamism is directly proportional to the level of innovation requirement for a business, (Wang and Chen, 2010). Additionally, there is evidence of a positive relationship between innovation and growth of markets, both new and existing, as well as between innovation and competitive advantage in studies done on insurance industry, (Rothkopf and Wald, 2011; Gunday et al., 2011).

Mehrdad, Sadati, , Delavari, Mohsen, and Ramin, (2011) concluded that firms with greater innovativeness will be more successful in responding to changing environment and in developing new capabilities that allow them to achieve better performance. According to Muhammad, Mohammed and Halimu (2012) in their study on the mediating role of innovation in the relationship between EO, firm resources, branding and SME performance. Innovation is regarded as a crucial component and an engine for driving economic growth. Innovation is regarded comparably essential in both large and small enterprises as it has a similar effect on both. The study asserts the importance of innovation to the growth for SMEs in developing countries in other parts of the world. Additionally, the study observed that the degree of EO determines the level of innovation in a firm and can therefore inhibit or foster innovation process, in turn the resultant effect has a bearing on the market share and on the overall firm performance.

The OECD manual on innovation strategy classifies innovation according to the area it affect in its application; these are product, process, and technological innovations. Product innovation involves the launch of new products or services or those are notably improved either their features or have new uses and purposes, (OECD, 2012). Product innovation involves either in the production where new materials, parts, software, new uses, or other attributes. It is worth noting that innovation products and services are distinct in nature. Process innovation constitutes significant change on the mode of production, both mechanical and human skills. Both products and process may occur concurrently.

Technological innovation is fundamentally technical in nature, and comprises of both production methods as well as the product and services themselves. Its main aim is the improvement in efficiency of either the product, service or the mode of production and may have an aspect of cost reduction in the long run. This type of innovation involves tools and procedures, product and processes interacting in new ways and is usually a combination of hard and soft ware. Successful new technology and innovation is necessitated by and driven by either personal goals, customers' demands, changes in business and societal needs as well as policy changes, (OECD, 2012). Technological innovation is commonly perceived as driving force of innovation when creating products or providing services. However, what really count in innovation are the quality, creativity involved, comprehensiveness, accuracy and aesthetics (OECD, 2012). There is therefore a need to conduct a study in the field to determine the effect that innovation orientation has on the performance of the insurance in Kenya.

Mbogoh (2013) investigated the relationship between financial innovation and monetary performance of Kenyan

insurance firms. From the study it was established that there exists an insignificant association between new products and financial outcome of a firm. On the contrary, in the same study, process and systems innovations are statistically significant in the changes on the financial performance of the firms. Ombaka (2014) analyzed the moderating role of external environment and innovation on the relationship between resources and performance of insurance firms in Kenya. It was found that tangible resources had not only insignificant but also weakly correlated with innovation but the intangible resources seemed to be significantly associated with innovation. Further it was observed that innovation was highly associated with non-monetary outcomes of the firms while it was established that the collective effect of resources innovation and environment on non-monetary outcomes was substantial. Market innovation involves the creation of new market for both existing and new products and services. Although firms strive to put marketing innovation to proper use, success of the strategy could be prevented by obstacles. These may include lack of financial and personnel resources, since executing market innovation requires intense resources (Lin, Peng, and Kao, 2008). In addition, lack of proper market innovation knowledge and experience, especially among the newer firms in an industry as well as commitment uncertainty to the entire process of market innovation may lead to undesired results in the enactment of this strategy (Cooper and Edgett, 2009). Nyamai (2011) reports that Jubilee Insurance Company Limited responded to environmental changes via entering new markets, adoption of state of art of information technology systems, improved customer services, new product development and employee's motivation. Intense market innovation ensures survival of businesses in an environment of fast changing market and technological advances. Management of firms therefore needs to invest in market innovation to maintain a competitive advantage against other firms. Further, an effective market innovation not only enables a firm secure new business, but also safeguards their already existing business (Kiragu, 2016). There is therefore a need to conduct a study in the field to determine to effect of innovation orientation on the performance of the insurance companies.

REGULATORY FRAMEWORK

The development, growth, delivery, administration monitoring and evaluation of insurance services depends on sound regulation, supervision, and policy, (Williams, 2010). In 2011, the global standard setting body for insurance services, the International Association of Insurance Supervisors (IAIS) in recognition of the importance of inclusive insurance markets, documented a brief on regulation and supervision issues regarding comprehensive insurance markets (International Monetary Fund, 2013). Regulation dictates the operations of insurance firms from commencement to daily operations in addition proper behavior in the market place. For this reason, regulatory framework needs to be assessed to establish if there is a mediating effect between EM and performance.

PERFORMANCE OF INSURANCE FIRMS IN KENYA

Hamann, Schiemann, Bellora and Guenther (2013) in their study to explore the dimensions of organizational performance established that there was evidence of four aspects organizational performance. The behavior and success of the firm in stock market was categorized as one dimension of performance; Accounting specifics such as profitability and liquidity are the other aspects. This study focused on two performance indicators, gross premium and the market share.

III. RESEARCH METHODOLOGY

The study population comprised of 406 heads of the 7 departments in the companies that are involved in the dimensions being studied, namely marketing, finance, human resources, sales, risk, IT, and operations department

Sample size: 197 respondents comprising of senior managers who are the decision makers in the insurance firms. The study utilized both primary data and secondary data, the secondary data was obtained from regulatory bodies, journals articles and other online sources. The primary data was obtained from the respondents in the insurance companies In this regard, a questionnaire was an appropriate instrument to help the researcher collect the required information from the respondents. To ensure content validity, the questionnaire was subjected to a pilot test to check for any weaknesses in design and development. This was done by randomly selecting 2 registered firms from where 7 officials from the relevant departments were selected and invited to take part in pilot study. Their feedback and time required for completion were recorded so that the items were refined and the final questionnaire developed. Cronbach's alpha determines the internal consistency of items in a survey instrument to gauge its reliability.

Quantitative methods of data analysis were used when investigating the relationship between variables. The choice of methods was based on the review of the literature and the study objectives. Regression analysis was used to investigate the effect of independent variables identified in the conceptual framework on the gross premium and the market share. As indicated in the theoretical literature, the identified independent variables could have some effect on the market share as an indicator of performance of insurance firms. The following multiple regression models were estimated to find out whether there is any significant relationship between the dependent variable and the independent variables and was estimated using the method of ordinary least squares. This model is appropriate because in this study, the dependent variables determine the effect innovation orientation has on the performance of the insurance in Kenya. The study model is as below:

$$Y_1 = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon_1$$

Where:

Y_1 = Gross Premium; Market Share

X_1 = product innovation; X_2 = process innovation; X_3 = market innovation X_4 = Licensing X_5 = Capitalization

IV. RESULTS, DISCUSSIONS AND RECOMMENDATIONS

CRONBACH'S ALPHA AND CORRELATED ITEM- TOTAL CORRELATION FOR THE CONSTRUCTS

The value of the Cronbach's alpha strategic orientation construct which was 0.77, innovation orientation construct, 0.73, market orientation construct 0.81, resource leveraging 0.75 and regulatory framework construct, 0.76. The values were above the 0.7 level as recommended (Nunnally, 1978; and Gliem and Gliem, 2003)). The correlated item-total correlations indicated that there was a moderate item-total correlation for strategic orientation construct items which ranged between $r = 0.56$ and $r = 0.74$. The results in the table therefore indicated that items used in each construct measured what they were intended to measure in order that reliable results were arrived at.

Linear regression analysis requires all variables to be multivariate normal. If the residuals are not skewed, that means that the assumption is satisfied. In this study, normality was tested by using skewness and kurtosis.

The average market share was 3.25 percent, and 42% of the respondents were male, implying that 58% were female. The average age of the respondents was 34 years, and the average frequency of change in operations was 10.97, while that of market innovation was 6.2. The average of frequency of market survey was 8.78 approximately 3 times within the last 5 years, and the average budget for market surveys for the last five years was 1.87 million Kenya shillings, while the average of employees in was approximately 7 members of staff. The average premium was 90.81 million per year, and average number of partnerships and alliances was 2.54 (both local and foreign), while average annual licensing renewal fees required is 1.85 million shillings, average capital base required to continue with operations (capitalization) is 30.475 million Kenya shillings. The average years of service in the current company was 5.17.

Regression Summary- Gross Premium

Linear regression	No of obs.	142		
	F(5,136)	12.546		
	Prob>F	0		
	R squared	0.316		
	Adj R2	0.29		
	Root MSE	0.61		
	Durbin Watson	1.023		
	Unstandardized Coefficients	t	Sig.	
	B	Std. Error		
(Constant)	1.78	0.24	7.425	0
product innovation	0.073	0.03	2.443	0.016
process innovation	0.096	0.056	-1.711	0.049
market innovation	0.188	0.04	4.75	0

Licensing	-0.052	0.07	-0.742	0.459
Capitalization	0.029	0.052	0.558	0.578

Source: Research data 2021

Regression summary II- Market share

Linear regression	No of obs.	142		
	F(5,136)	15.662		
	Prob>F	0		
	R squared	0.365		
	Adj R2	0.342		
	Root MSE	1.85		
	Durbin Watson	1.028		
	Unstandardized Coefficients	t	Sig.	
	B	Std. Error		
(Constant)	1.76	0.727	2.421	0.017
product innovation	0.251	0.09	2.777	0.006
process innovation	0.2	0.17	-1.179	0.024
market innovation	0.636	0.12	5.306	0
Licensing	-0.272	0.214	-1.274	0.205
Capitalization	0.117	0.158	0.739	0.461

Source: Research data 2021

Innovation orientation was found to have both significant but positive effect on the performance of insurance industry. All the innovation orientation predictors, product innovation, process innovation and market innovation had positive both significant effect on performance indicators, gross premium and market share. The effect on gross premium was represented by product innovation coefficients and P-values 0.073, 0.016; process innovation coefficient and P-values 0.096, 0.049 and market innovation, coefficients and P-values 0.188; 0.00 respectively. The effect on market share was represented by product innovation coefficient and P-values 0.251, 0.006, process innovation coefficient and P-values 0.02; 0.024 and market innovation, coefficient and P-values 0.0636; 0.00 respectively. The moderating variables have mixed effects represented by licensing coefficient and P-values; -0.052, 0.459 for Capitalization the coefficient and P-values 0.029; 0.578 respectively (Gross premium) while The Coefficients and p-values for the moderating effect on market share are represented by Licensing -0.272; 0.205 capitalization 0.117; 0.461 respectively. This showed that the moderating variable had an insignificant effect generally on the relationship between innovation and performance in the industry.

The study observed that innovation in the insurance industry in the country is not as vibrant as other financial sectors. A study on the drivers of innovation should be done to assess the status of the innovation.

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