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EFFECT OF PRODUCT INNOVATION ON THE PERFORMANCE OF FOOD AND BEVERAGE SECTOR IN MANUFACTURING SME INDUSTRIES IN NAIROBI COUNTY, KENYA

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Abstract:
Small and Medium Enterprises (SMEs) in the food and beverage manufacturing sector play a significant role in Kenya's economic growth through employment creation, income generation, and industrial development, particularly in Nairobi County. Despite their contribution, many SMEs continue to face challenges related to stiff competition, changing consumer preferences, and limited innovative capacity, which negatively affect their performance. This study sought to examine the effect of product innovation on the performance of the food and beverage sector in manufacturing SME industries in Nairobi County. The study was guided by Schumpeter's Theory of Innovation and the Resource-Based View (RBV) theory. A descriptive survey research design was adopted, targeting 107 formally registered food and beverage manufacturing SMEs within Nairobi County. The study utilized a census approach where all the SMEs were included in the study. Primary data was collected using structured questionnaires and analyzed using descriptive and inferential statistical techniques, including regression analysis. The findings established that product innovation had a positive and significant effect on the performance of the food and beverage sector in manufacturing SME industries in Nairobi County (β = .181, p = 0.023). The study revealed that SMEs that frequently introduced new products, improved product quality, adopted attractive packaging, and diversified product lines experienced increased sales, customer satisfaction, and market competitiveness. The study concluded that product innovation is a critical driver of performance among food and beverage manufacturing SMEs in Nairobi County. The study recommends that SMEs should continuously invest in research and development,

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customer-driven product improvements, and innovative product differentiation strategies to enhance their competitiveness and overall organizational performance.

JEL: O31, O32, L25, M21, L66

Keywords: product innovation, performance, food and beverage sector, manufacturing SME industries, Nairobi County

1. Introduction

Globally, product innovation is considered an important strategy for improving the performance of food and beverage manufacturing Small and Medium-sized Enterprises (SMEs). Product innovation involves introducing new products, improving existing products, and adopting better packaging to meet changing customer preferences and market demands (Schumpeter, 1934). In developed countries such as the United States, Germany, and Japan, food and beverage SMEs use product innovation to improve customer satisfaction, increase sales, and enhance competitiveness (Du & Cai, 2020). Japanese SMEs, for example, have achieved strong performance through continuous product quality improvement and innovation (Georgiev & Ohtaki, 2020). However, many SMEs globally still face challenges, including inadequate financial resources and limited research and development capabilities, that affect their innovation performance (Kazeem, 2020).

In Africa, SMEs contribute significantly to employment creation and economic growth, particularly in the food and beverage manufacturing sector (Ussif & Salifu, 2020). Product innovation has become essential for improving firm performance, customer satisfaction, and market competitiveness. In South Africa, food and beverage manufacturing SMEs that adopt product diversification and quality improvement strategies experience better performance outcomes (Matlhoko, 2023). Similarly, in Nigeria and Ghana, SMEs that invest in product innovation achieve improved profitability and customer retention despite facing challenges such as limited financing and inadequate technology (Abur, 2020; Mensah & Osei, 2022). In Uganda, innovative food processing and packaging practices have also contributed to improved SME competitiveness and productivity (Namagembe, Ryan & Sridharan, 2019).

In Kenya, SMEs contribute approximately 30% of the Gross Domestic Product (GDP) and provide about 83% of employment opportunities (KNBS, 2023). Food and beverage manufacturing SMEs are important for food supply, value addition, and industrial growth, especially in Nairobi County. Due to changing consumer preferences and increased market competition, product innovation has become necessary for improving SME performance (Chege *et al.*, 2023). According to the Kenya Association of Manufacturers (KAM, 2023), many food and beverage manufacturing SMEs continue to face low performance due to limited innovation capacity, inadequate finances, and weak research and development systems. Government initiatives such as the Kenya Industrial

Transformation Programme (KITP) encourage SMEs to adopt innovation and value addition strategies in manufacturing (MoITED, 2020). However, many SMEs in Nairobi County have not fully embraced product innovation practices such as new product development, product differentiation, and improved packaging, limiting their competitiveness and growth (Omino, 2023). Therefore, there is a need to examine the effect of product innovation on the performance of the food and beverage sector in manufacturing SME industries in Nairobi County.

2. Theoretical Review

This study was guided by Schumpeter's Theory of Innovation. This theory was developed by Joseph Schumpeter in 1934. The theory argues that innovation is the major driver of economic growth and organizational performance through the introduction of new products and the improvement of existing products (Munier, 2020). According to the theory, firms achieve competitive advantage by continuously developing innovative products that meet changing customer needs and market demands (Isaiah & Dickson, 2024).

The theory is relevant to this study in explaining the relationship between product innovation and the performance of the food and beverage sector within manufacturing SME industries in Nairobi County. Product innovation involves introducing new food and beverage products, improving product quality, enhancing packaging, and modifying products to satisfy customer preferences (Okwaro *et al.*, 2025). According to Schumpeter's Theory of Innovation, SMEs that continuously innovate their products are more likely to improve customer satisfaction, increase sales, strengthen market competitiveness, and achieve long-term business growth (Chege *et al.*, 2025).

Despite its relevance, the theory has been criticized for focusing mainly on individual entrepreneurs and radical innovation while giving less attention to collaborative and incremental innovation processes common in SMEs (Grillitsch *et al.*, 2020). However, the theory remains appropriate for this study because it explains how product innovation can enhance the performance of food and beverage manufacturing SMEs operating in Nairobi County.

2.1 Conceptual Review

This section reviewed the study variables and their relationships.

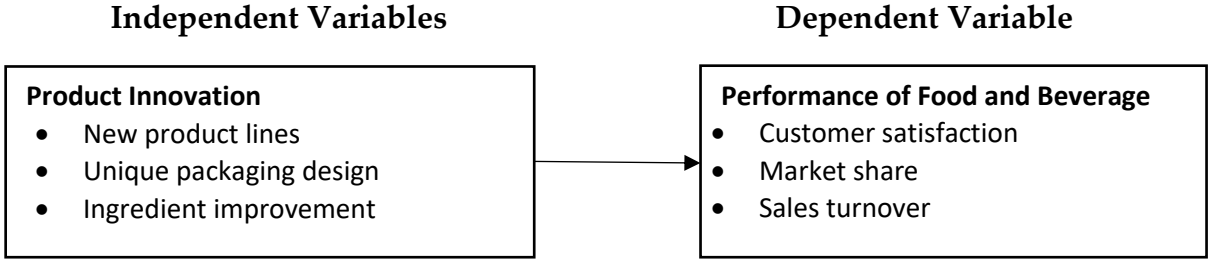

Figure 1: Conceptual Framework

The introduction of new or significantly advanced goods and services through innovative functionality, along with different designs and uses, defines product innovation. Small and medium food companies must differentiate to survive, thus making product innovation highly relevant for their business sector. The study by Farida and Setiawan (2022) demonstrates that businesses that innovate their products can meet shifting customer needs, enhancing their market performance and revenue generation. SMEs can use their flexibility to adopt new products more rapidly while developing innovative items that bring improved competitiveness. Latifi *et al.* (2021) proved that SMEs achieve superior performance through product innovation, particularly when they focus on developing strong relationships with their customers. Nairobi-based SMEs that continuously enhance their products gain better opportunities to serve changing urban consumers, resulting in dedicated customers and sustainable business operations.

2.2 Empirical Review

Tiwasing *et al.* (2020) conducted research to study the relationship between product innovation and growth performance in the food and beverage sector in manufacturing SME industries throughout London and Birmingham in the United Kingdom. The results from surveys and case interviews demonstrated that businesses gained better market reach and brand commitment by establishing new product versions which followed customer taste evolution. Owen *et al.* (2023) established that businesses which consistently released new healthy organic product series established a strong long-term consumer connection. This studies however, dwelt on small and medium enterprises within well-organized innovation networks backed by government food clusters, which might not apply to Nairobi's unstructured small business environment.

A German panel study conducted by Peters and Rammer (2023) tested 1,200 small and medium enterprises, which showed that regular product innovations consisting of design and packaging elements created substantial benefits for retaining customers and generating increased revenue streams. New product lines, ranging from two per year, resulted in a 16 percent enhanced average performance based on regression analysis. However, the research heavily focused on EU innovation-funded high-tech food and beverage sector in manufacturing SME industries, it fails to address non-tech that commonly represent the Kenyan food and beverage business sector.

Mapulanga (2020) conducted research to study product innovation within the 150 South African agro-processing food and beverage sector in manufacturing SME industries operating in the Western Cape province. Since the research employed descriptive analysis of structured questionnaires, it revealed that product innovation, which followed consumer preferences such as spiced meat and dairy alternatives, strengthened customer loyalty while producing positive financial outcomes. The study used only subjective profitability reports to evaluate performance, which creates a measurement-based weakness because it did not incorporate standardized metrics like return on investment (ROI) or market share.

The research of Ojenike (2024) explored product innovation practices in 100 food processing clusters located in Lagos, Nigeria. The study employed case studies to discover that businesses reaping higher customer numbers and distribution partnerships emerged from those launching relevant seasonal and cultural products often. This research omitted the analysis of how organizational culture, together with managerial capability, influences product innovation, thus revealing missing knowledge about innovation outcomes' internal features.

Okundi (2022) evaluated bakery and snack business innovation within Nakuru through his research in Kenya. The research documented that regular product testing and customer feedback activities in the food and beverage sector of manufacturing SMEs resulted in increased customer buybacks and more diverse streams of income. The research failed to establish relationships between industry segment performance responses to product innovation because it lacked a comparison between different food and beverage industries.

3. Research Methodology

The study adopted a descriptive research design. The design was suitable for this study because it enabled the researcher to examine the effect of product innovation on the performance of the food and beverage sector in manufacturing SME industries in Nairobi County. The target population comprised all formally registered food and beverage manufacturing SME industries in Nairobi County, Kenya. The respondents were the 107 heads of operations within the firms. The study adopted a census approach where all the 107 registered food and beverage manufacturing SMEs in Nairobi County were included in the study. The use of a census was appropriate because the population size was manageable and enabled the researcher to obtain comprehensive and accurate information from all the firms. Primary data was collected using structured questionnaires. The pilot study involved 11 food and beverage manufacturing SMEs in Nairobi County, representing 10% of the target population. Content validity was used in this study. The reliability of the questionnaire was tested using Cronbach's Alpha coefficient. The findings indicated that product innovation had a Cronbach's Alpha coefficient of 0.748. After data collection, the questionnaires were coded, cleaned, and analyzed using the Statistical Package for Social Sciences (SPSS). Quantitative data were analyzed using descriptive and inferential statistics. Descriptive statistics included frequencies, percentages, means, and standard deviations. Inferential statistics involved Pearson correlation analysis and simple linear regression analysis to determine the relationship between product innovation and performance of the food and beverage sector in manufacturing SME industries in Nairobi County. The simple linear regression model used in the study was as follows:

$$Y = \alpha + \beta X_1 + \varepsilon$$

Where:
Y = Performance of the food and beverage sector in manufacturing SME industries,
α = Constant term,
β = Regression coefficient,
X_1 = Product innovation,
ε = Error term.

The findings were presented using tables, percentages, means, and regression coefficients for ease of interpretation.

4. Research Findings and Discussions

4.1 Response Rate

The study showed that out of the 96 questionnaires distributed, 80 were returned, representing a response rate of 83.3%, while 16 questionnaires were not returned, accounting to 17.8%. This high response rate was deemed sufficient to support the reliability and validity of the study results. The study findings are presented in Table 1.

Table 1: Response Rate

Responses	Frequency	Percentages
Questionnaires distributed	96	100.00
Questionnaires responded	80	83.3
Questionnaires not responded	16	16.8

4.2 Descriptive Analysis for Product Innovation

The study sought to assess the effect of product innovation on the performance of the food and beverage sector within manufacturing SMEs in Nairobi County. Table 2 below presents the study results.

Table 2: Descriptive Analysis for Product Innovation

Product Innovation		SA	A	N	D	SD	Mean	Stdv
1. Our business regularly introduces new product lines to meet changing consumer demands.	F	26	38	4	11	10	3.66	1.32
	%	29.2	42.7	4.5	12.4	11.2		
2. We have developed unique product variations to target specific customer segments.	F	31	38	4	10	6	3.88	1.20
	%	34.8	42.7	4.5	11.2	6.7		
3. Our packaging design distinguishes our products from competitors in the market.	F	27	35	9	10	8	3.71	1.26
	%	30.3	39.3	10.1	11.2	9.0		
4. We actively experiment with innovative packaging to enhance consumer appeal.	F	20	41	7	15	6	3.61	1.20
	%	22.5	46.1	7.9	16.9	6.7		
5. We continuously improve our product ingredients to enhance taste, health, or nutrition.	F	27	38	2	14	8	3.70	1.30
	%	30.3	42.7	2.2	15.7	9.0		
6. Customer feedback on ingredient quality is integrated into our product development.	F	34	35	3	5	12	3.83	1.36
	%	38.2	39.3	3.4	5.6	13.5		

The findings in Table 2 showed that 62 (71.9%) of the respondents agreed that their businesses regularly introduce new product lines to meet changing consumer demands. However, 18 (23.6%) of the respondents disagreed that their businesses regularly introduce new product lines to meet changing consumer demands. The mean score of 3.66 and a standard deviation of 1.32 further suggest that most respondents generally agreed that their firms actively introduce new products to meet evolving market demands. These findings are consistent with the study by Cusumano, Kahl, and Suarez (2015), who observed that product-related innovations enable firms to enhance customer value by offering complementary and adaptive product solutions that respond to consumer needs.

Further, 66(77.5%) of the respondents agreed that their businesses have developed unique product variations to target specific customer segments. In addition, 14(17.9%) of the respondents disagreed that their businesses have developed unique product variations to target specific customer segments. From the mean and standard deviation results, the respondents agreed that their businesses have developed unique product variations to target specific customer segments (Mean = 3.88, Std. dev = 1.20). Findings concurs Camilleri (2017) with marketing managers who may consider using target marketing usually break the market down into groups and target the most profitable segments. They may adapt their marketing mix elements, including products, prices, channels, and promotional tactics, to suit the requirements of individual consumers.

Similarly, 62(69.6%) of the respondents agreed that packaging design distinguishes their products from competitors in the market, whereas 18(20.2%) of the respondents disagreed that packaging design distinguishes their products from competitors in the market. The mean score of 3.71 and a standard deviation of 1.26 indicate overall agreement with this statement. These results agree with the study done by Blazeska and Ristovska (2016) confirms the hypothesis and points out the great significance of the design for achieving the company's competitive advantage.

In addition, 60(68.6%) of the respondents agreed that they actively experiment with innovative packaging to enhance consumer appeal. However, 20(23.6%) of the respondents disagreed that they actively experiment with innovative packaging to enhance consumer appeal. The mean and standard deviation results further showed agreement with this statement (Mean = 3.61, Std. dev = 1.20). Findings are consistent with the study done by Cao, Peng and Liang (2025) demonstrate that packaging novelty in organic food can influence consumers' purchase intentions.

Moreover, 62(73.0%) of the respondents agreed that their businesses continuously improve product ingredients to enhance taste, health or nutrition. Further, 18(24.7%) of the respondents disagreed that their businesses continuously improve product ingredients to enhance taste, health or nutrition. The results on mean and standard deviation indicated that the respondents agreed that their businesses continuously improve product ingredients to enhance taste, health, or nutrition (Mean = 3.70, Std. dev = 1.30). The study findings align with Guiné, Florença, Barroca and Anjos (2020), consumer behaviour and attitudes towards new foods encompass multiple aspects, such

as preference, choice, desire to eat certain foods, buying intentions and frequency of consumption.

Finally, the study established that 69 (77.5%) of the respondents agreed that customer feedback on ingredient quality is incorporated into product development processes, while 17 (19.1%) disagreed. The mean score of 3.83 and a standard deviation of 1.36 suggest a strong level of agreement. Findings concur with Lindemann, Nuy, Briele and Schmitt (2019) increasing amount of customer-generated content regarding a product, for example, published in Social Media are an important source of information for companies.

4.3 Performance of the Food and Beverage Sector in Manufacturing SME industries

The study analysed the performance of the food and beverage sector within manufacturing SMEs in Nairobi County. Table 3 presents the study results.

Table 3: Descriptive Analysis for Performance of the Food and Beverage Sector

Performance Statements		SA	A	N	D	SD	Mean	Sd
1. Our customers consistently express high satisfaction with the products and services we offer	F	26	37	5	12	9	3.66	1.31
	%	29.2	41.6	5.6	13.5	10.1		
2. We maintain a strong reputation for delivering high-quality services in the food and beverage industry	F	22	43	2	11	11	3.61	1.32
	%	24.7	48.3	2.2	12.4	12.4		
3. We have successfully increased our market share within the food and beverage sector in Nairobi	F	23	38	2	18	8	3.56	1.31
	%	25.8	42.7	2.2	20.2	9.0		
4. Sales turnover has improved, leading to enhanced service delivery and cost savings	F	20	41	7	13	8	3.58	1.24
	%	22.5	46.1	7.9	14.6	9.0		
5. We actively monitor customer feedback to improve our services and address their needs effectively	F	30	39	4	6	10	3.82	1.28
	%	33.7	43.8	4.5	6.7	11.2		
6. Sales turnover has become more streamlined, leading to higher profitability and better resource utilization	F	33	32	5	10	9	3.79	1.33
	%	37.1	36.0	5.6	11.2	10.1		

The results in Table 3 indicated that the majority of the respondents, 70.8%, agreed that their customers consistently express high satisfaction with the products and services they offer. However, 23.6% of the respondents disagreed that their customers consistently express high satisfaction with the products and services they offer. The mean score of 3.66 and a standard deviation of 1.31 further indicate general agreement among respondents. These results agree with Indriastiningsih et al. (2023) and show that both service quality and experiential marketing significantly affect customer satisfaction, as well as that service quality, experiential marketing and customer satisfaction significantly affect customer loyalty. Also, the mediator is customer satisfaction, and service quality, as well as experiential marketing, indirectly affect loyalty via satisfaction.

Further, 71.9% of respondents agreed that they maintain a strong reputation for delivering high-quality services in the food and beverage industry, whereas 24.8%

disagreed. Based on the mean and standard deviation results, the respondents agreed that they maintain a strong reputation for delivering high-quality services in the food and beverage industry, with a Mean of 3.61 and Std. dev of 1.32. The study findings are consistent with the study done by Abdullah, Sufi and Kumar (2023) show that CS and its impact on customer retention are significantly and favorably influenced by the quality of the cuisine and beverages, as well as the service.

In addition, 67.5% of the respondents agreed that their businesses have successfully increased market share within the food and beverage sector in Nairobi. However, 29.2% of the respondents disagreed that their businesses have successfully increased market share within the food and beverage sector in Nairobi. The mean and standard deviation findings indicated that the respondents agreed that their businesses have successfully increased market share within the food and beverage sector in Nairobi (Mean = 3.56, Std. dev = 1.31). The study findings agreed with the study done by Njuguna and Juma (2024), who found that market development has a positive and significant effect on the performance of food and beverage manufacturing firms in Nairobi County, Kenya. The study also concludes that diversification has a positive and significant effect on the performance of food and beverage manufacturing firms in Nairobi County, Kenya.

Similarly, 68.6% of respondents agreed that sales turnover has improved, leading to enhanced service delivery and cost savings, whereas 23.5% disagreed. The mean score of 3.58 and a standard deviation of 1.24 indicate general agreement among respondents. The study findings, as shown by Amadi (2018), showed that delivery performance had a positive and significant relationship with sales turnover. The study concluded that delivery performance enhances sales performance in terms of sales turnover of food and beverage exporting SMEs in Nigeria.

Moreover, 77.5% of the respondents agreed that they actively monitor customer feedback to improve services and address customer needs effectively. Conversely, 17.9% of the respondents disagreed that they actively monitor customer feedback to improve services and address customer needs effectively. From the mean and standard deviation results, the respondents agreed that they actively monitor customer feedback to improve services and address customer needs effectively (Mean = 3.82, Std. dev = 1.28). Results agreed with Singh *et al.* (2023) discovered that the likelihood of being satisfied with a declaration is significantly correlated with one's plan to repurchase the statement.

Finally, 73.1% of the respondents agreed that their sales turnover has become more streamlined, leading to higher profitability and better resource utilization. However, 21.3% of the respondents disagreed that their sales turnover has become more streamlined, leading to higher profitability and better resource utilization. The mean score of 3.79 and a standard deviation of 1.33 indicate general agreement. Findings concurred with Ishikawa, Gemba and Oda (2025) reveal that the selling, general, and administrative (SG&A) expense ratio negatively affects operating profit margins, emphasizing the importance of cost control. Companies that adopt indirect sales channels achieve significant cost efficiency, improving profit margins.

4.4 Results for Simple Linear Regression Analysis

This section presents the findings of the simple linear regression analysis conducted to determine the effect of product innovation on the performance of the food and beverage sector in manufacturing SME industries in Nairobi County. The analysis examined the extent to which product innovation contributes to organizational performance among the selected SMEs.

4.4.1 Model Summary

The coefficient of determination (R^2) and correlation coefficient (R) were used to determine the degree of association between product innovation and performance of the food and beverage sector in manufacturing SME industries in Nairobi County. The results are presented in Table 4.

Table 4: Simple Linear Regression Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.714a	.510	.504	.64125

The results in Table 4 indicate that R = 0.714 and R^2 = 0.510. The R value shows that there is a strong positive relationship between product innovation and performance of the food and beverage sector in manufacturing SME industries in Nairobi County. The R^2 value implies that product innovation explains 51.0% of the variation in the performance of the food and beverage sector in manufacturing SME industries in Nairobi County.

4.4.2 Model Fitness

The study further tested the suitability of the regression model in explaining the relationship between product innovation and performance of the food and beverage sector in manufacturing SME industries in Nairobi County. The findings are presented in Table 5.

Table 5: Model Fitness Results

	Sum of Squares	df	Mean Square	F	Sig.
Regression	49.372	1	49.372	120.154	.000b
Residual	47.092	87	.541		
Total	**96.464**	**88**			

The results in Table 5 indicate that the regression model was statistically significant ($F(1,87) = 120.154$, $p = 0.000$). This shows that the model was appropriate in explaining the relationship between product innovation and performance of the food and beverage sector in manufacturing SME industries in Nairobi County.

4.6.3 Regression Coefficients

The study sought to establish the regression coefficients in order to determine the effect of product innovation on the performance of the food and beverage sector in manufacturing SME industries in Nairobi County. The findings are presented in Table 6.

Table 6: Regression Coefficients

	Unstandardized Coefficients		**Standardized Coefficients**	**t**	**Sig.**
	B	Std. Error	Beta		
(Constant)	.782	.149		5.248	.000
Product Innovation	.618	.056	.714	10.962	.000

The findings in Table 6 indicate that product innovation had a positive and significant effect on the performance of the food and beverage sector in manufacturing SME industries in Nairobi County ($\beta = .618$, $p = 0.000$). This implies that an increase in product innovation leads to an increase in performance of the food and beverage sector in manufacturing SME industries in Nairobi County by 0.618 units.

The regression equation, therefore, becomes:

$$Y = 0.782 + 0.618X_1$$

Where:
Y = Performance of the food and beverage sector in manufacturing SME industries
X_1 = Product innovation

5. Conclusion of the Study

The aim of the study was to examine the effect of product innovation on the performance of the food and beverage sector in manufacturing SME industries in Nairobi County. The findings established that product innovation had a positive and significant effect on the performance of food and beverage manufacturing SMEs. The study concluded that SMEs that continuously introduce new products, improve existing products, adopt better packaging, and respond to customer preferences are more likely to improve customer satisfaction, sales growth, competitiveness, and overall organizational performance. Product innovation was therefore found to be an important strategy for enhancing the performance and sustainability of food and beverage manufacturing SMEs in Nairobi County.

5.1 Recommendations of the Study

Based on the study's findings and conclusions, the following recommendations were made: Food and beverage manufacturing SMEs should continue to invest in product innovation by developing new product lines, improving existing products, and adopting

innovative packaging strategies to meet changing customer needs and market demands. SMEs should also regularly collect customer feedback and use it to improve product quality, taste, packaging, and nutritional value so as to enhance customer satisfaction and competitiveness. The study further recommends that SMEs should invest in research and development activities to support continuous product improvement and product differentiation within the food and beverage manufacturing sector.

5.2 Suggestions for Future Studies

Future studies should examine the effect of product innovation on the performance of SMEs in other sectors apart from the food and beverage manufacturing industries. Further studies should also be conducted in other counties in Kenya to determine whether the findings of this study can be generalized beyond Nairobi County.

Conflict of Interest Statement

We declare that there are no conflicts of interest regarding the publication of this paper. We have no financial, professional, or personal relationships that could have influenced the research, analysis, or reporting of the findings.

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