Abstract

The study investigates the extent to which firms in Kenya manufacturing and service sectors invest in knowledge capital leading to innovations. 534 firms were included in the analysis. This was the combined data from the first Kenya innovation survey data of 2012, which covered 158 firms, (2008-2011) and the second Kenya innovation survey of 2015 which covered 376 firms (2012-2014). The Crépon, Duguet, and Mairessec (CDM) (1998) model, which considers a system of four equations: innovation propensity, innovation investment, innovation output and performance equations, was used as the estimation technique. The results revealed that, a firm‟s decision to spend on R&D was significantly influenced by firm ownership, financial turnover and product innovativeness. A firm‟s R&D intensity was significantly determined by its financial turnover and ownership. A firm‟s activity and financial turnover were also significant in determining whether it introduced a new product in the market or not. The results of this paper suggest that a firm‟s financial turnover was significant in R&D decisions but R&D intensity did not significantly matter to a firm‟s product innovativeness. Further, a firm‟s level of innovativeness was a significant determinant of its productivity. In addition, the results suggest that, innovations among the Kenyan firms in the manufacturing and service sectors were heavily reliant on financial capital and were struggling to convert knowledge inputs into product output. This study thus recommends a policy that incorporates the academia and firm level innovation with national innovation systems to enhance knowledge and skill intensive innovations that are new to the world.