

**RELATIONSHIP BETWEEN ENTREPRENEURIAL ORIENTATION AND
PERFORMANCE OF SMALL AND MEDIUM-SIZED ENTERPRISES IN
NAIROBI COUNTY**

CAROLINE WANJIRU WOTO

**A RESEARCH THESIS SUBMITTED IN PARTIALFULFILLMENT OF THE
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UNTVERSITY**

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DECLARATION

This research Thesis is my original work and has not been presented for academic purposes at Kenya Methodist University or any other University.

Signed..... Date

Caroline Wanjiru Woto

BUS-3-0838-02/2019

Declaration by the Supervisor

This research thesis has been submitted for examination with our approval as the University Supervisors.

Signed..... Date

Dr. Wilson Muema (Ph.D.)

Kenya Methodist University

Signed..... Date

Dr. Eric Mutiria (Ph.D.)

Kenya Methodist University

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ABSTRACT

Small and Medium-sized enterprises (SMEs) drives Kenya's economic growth and development thus boosting the nation's GDP by creating employment. However, they face several challenges that might impede their growth and longevity. These encompasses limited financial resources, fierce market rivalry, and inadequate management skills. These problems reduce profits and competitive advantage for many SMEs. These enterprises are driven by survival or necessity. Previous studies show that 60% of Kenyan small enterprises fail during the first six months (RoK, 2020), and more than 60% fail annually (Ngugi, 2020). This study indicates a deficiency in entrepreneurial orientation (E.O.) among SMEs in Kenya. The primary goal was to investigate how entrepreneurial orientation impacts the performance of SMEs in Nairobi County. To achieve this, the study was guided by four objectives: 1. To analyze the link between innovativeness and SME performance in Nairobi County. 2. To evaluate interrelation between proactiveness and SME performance in Nairobi County. 3. To assess how risk-taking propensity relates to SME performance in Nairobi County. 4. To investigate the relationship between opportunity obsession and SME performance in Nairobi County. Chi-square analysis and binary logistic regression were deployed to examine these relationships between independent and dependent variables. The chi-square test employed the question "Have you identified new businesses opportunities in the past year?" to assess the variable "opportunity Obsession". The findings affirm that innovativeness, proactiveness, risk-taking propensity, and opportunity obsession all significantly impact SME performance. Consequently, the null hypotheses were rejected. The researcher recommends SME managers and owners to formulate effective strategies for improving innovativeness, proactiveness, risk-taking propensity, and opportunity obsession by conducting SWOT analysis. Future research should consider exploring different locations and incorporating additional independent variables to provide a more comprehensive understanding of these dynamics.

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LIST OF ABBREVIATION

DV	Dependent Variable
EO	Entrepreneurial Orientation
GDP	Gross Domestic Product
IV	Independent Variable
KEMU	Kenya Methodist University
NACOSTI	National Commission For Science ,Technology &Innovation
N	Population Size
n	Sample Size
OECD	Organisation for Economic Co-operation and Development
OSC	Opportunity-Seizing Capability
R&D	Research and Development
RoK	Republic of Kenya
SMEs	Small and Medium-sized Enterprises
SPSS	Statistical Package for the Social Sciences

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Progressive economic development remains a key priorities for both emerging and industrialized nations. Achieving these goals requires the effective utilization of available resources to promote full employment. Small and medium-sized enterprises (SMEs) play a crucial role in this process by fostering job creation and maximizing the use of human and locally available resources (Cunningham & Rowley, 2021). Globally, SMEs firms constitute approximately 99% of all businesses and contribute in the middle of 40% to 50% of the total Gross Domestic Product (GDP) (Harris & Brown 2020). By harnessing local human and material resources, SMEs in both developed and developing nations employ about 60% of the workforce while enhancing resource allocation and distribution efficiency (Cunningham & Rowley, 2021).

Entrepreneurship is widely regarded as a critical driver of economic development. It enhances corporate success and macroeconomic outcomes by generating employment opportunities, increasing national competitiveness, and expanding the variety of consumer goods and services available (Ayyagari et al., 2019). Due to its impact on economic performance, entrepreneurship continues to attract significant attention from researchers and policymakers alike.

Across the globe, SMEs play an essential role in economic growth, contributing nearly 50% to national GDP (Akinboade, 2015). In Indonesia, data from Bank Indonesia and the

Financial Services Authority (OJK) indicate that approximately 70% of the country's nearly 60 million SMEs lack access to bank financing. In Africa, SMEs employ about 60% of the workforce, including a substantial number of women and young people, and constitute 90% of all businesses. Expanding these enterprises' access to international markets could facilitate broader distribution of global trade benefits across the workforce.

In Kenya, the unemployment rate remains significantly high, pushing many individuals to establish or seek employment in micro, small, and medium enterprises (Mbugua et al., 2017). Entrepreneurship serves as a critical strategy for addressing high poverty and unemployment levels in the country. However, SMEs in Kenya face numerous challenges, including dynamic demographic shifts, rapid technological advancements, and fluctuating economic conditions (Mwangi, 2020). Despite their economic significance, many SMEs struggle to survive due to intense competition and operational constraints. Recognizing the role of SMEs, the Kenyan government has prioritized policies that support their growth. Nevertheless, many small businesses continue to face a persistent risk of failure.

The significance of SMEs and entrepreneurship has grown over the past few decades, largely due to large corporations shifting their focus to core competencies and implementing extensive workforce reductions (Basile, 2022). SMEs contribute significantly to national economies, accounting for over 70% of Kenya's GDP, 47% in Singapore, and 33% in Tanzania (Madata, 2022). Pratono and Mahmood (2021) emphasize the need for SMEs to enhance their performance and adopt strategies that enable them to thrive in competitive environments. To achieve sustainable growth, SMEs must remain adaptable, flexible, and innovative while leveraging their internal resources effectively.

Krueger (2020) argues that in uncertain and competitive business environments, a firm's entrepreneurial orientation significantly influences its performance. Developing an entrepreneurial mindset allows SMEs to identify emerging opportunities and mitigate potential threats, ensuring long-term survival and growth (Krueger, 2021). Given the economic and market uncertainties businesses face, fostering an entrepreneurial culture is essential for navigating business challenges and sustaining performance.

1.1.1 Entrepreneurial Orientation

Various scholars have provided multiple definitions for this concept. According to Miller (2020), the definition of entrepreneurial orientation (E.O.) is congruent with strategic thinking, emphasizing the implementation of entrepreneurial-specific practices by senior management to foster innovation and gain a competitive advantage in the marketplace. This study determined that a firm exhibited an entrepreneurial orientation when it demonstrated a willingness to take risks, displayed innovative behaviour, and actively pursued proactive initiatives. The significance of the process of entrepreneurship has been underscored through the progression of strategic management research. According to Lumpkin and Dess (2019), managers act entrepreneurially by using current and emerging technology, grasping new products, seizing new market opportunities, and venturing into ventures that appear risky. This is entrepreneurial orientation, a strategic attitude reflecting an organization's processes and decisions that lead to new entry, according to Covin and Slevin (2021). According to Dess and Lumpkin (2018), entrepreneurial orientation (EO) plays a crucial role in entrepreneurial processes and provides insights into the decision-

making involved in new ventures and entrepreneurship. Entrepreneurial orientation (EO) indicators encompass innovation, proactiveness, and risk-taking.

Entrepreneurial activity is based on specific organizational-level behaviour that E.O. represents. According to previous research, Organizational success and competitive advantage are linked to E.O. Several studies claim that companies with higher levels of E.O. are more successful than those with lower levels of E.O. A high level of E.O. distinguishes entrepreneurial firms from their more conservative counterparts in their ability to recognize and seize opportunities. Some researchers have compared entrepreneurial and conservative businesses(Dess & Lumpkin 2018).

1.1.2 Dimensions of Entrepreneurship

Lumpkin and Dess (2017) argue that entrepreneurs initiate the process of creative disruption, which is essential for the success of entrepreneurial orientation (E.O.). Similarly, Shane (2015) identifies creativity and innovation as fundamental motivations for starting a new business. Lumpkin and Dess (1996) define innovativeness as a company's propensity to adopt and foster new ideas, creativity, experimentation, and original methods that could lead to the development of novel products, services, or technological advancements (p. 142). Consequently, a company's ability to innovate is crucial for its long-term success, as it drives the creation of new ideas and products (Lumpkin et al.,2020).

In today's rapidly evolving markets, maintaining a competitive edge relies heavily on innovation. E.O. fundamentally revolves around this principle of innovation, which is

central to the investigation. Lumpkin et al. (2020) highlight that innovativeness is culturally contingent, meaning its levels and effects may vary across different cultural contexts. Studying innovativeness across diverse cultural settings can provide valuable insights into its role and impact.

Risk-taking is another critical component of entrepreneurship, involving a readiness to undertake risks that could lead to substantial losses or performance variances. This propensity for risk-taking is essential for entrepreneurial ventures. At the corporate level, risk-taking involves investing in projects with uncertain outcomes (Walter et al., 2018). Dess and Lumpkin (2018) categorize risk into three types: business risk, financial risk, and personal risk. Business risk involves venturing into untested markets or adopting new technologies (Baird & Thomas, 1985; Dess & Lumpkin, 2018). Financial risk arises when a company takes on significant debt or allocates major resources for expansion (Rauch, 2016). E.O. firms often engage in high-risk activities, such as extensive leveraging and resource commitments, to capitalize on market opportunities. Personal risk pertains to the individual executive's decisions that could impact their career and personal reputation if the business fails (Bolton, 2017).

Moreover, risk-taking tendencies can be influenced by national culture, making it a significant factor in E.O. Understanding how cultural differences affect risk-taking can offer new perspectives, as this area has not been thoroughly explored in existing research. The entrepreneurial approach often involves identifying societal needs, conducting market research, and developing products or services to address these needs (Lee, 2016).

Aggressiveness in the marketplace is defined as a company's willingness to engage in direct, intense competition with its rivals. It also shows a company's willingness to try something new rather than sticking with tried-and-true competing methods. The metric employed to evaluate the manner in which entrepreneurial firms address threats encompasses the pivotal element of firm responsiveness, which is instrumental in attaining a competitive advantage. (Lee 2016). Because they are often used interchangeably in the literature, the terms proactivity and competitive aggression have a scholarly distinction to be made. Proactiveness pertains to the disposition of a company towards market opportunities. In contrast, competitive aggressiveness relates to a company's tendency toward competitors, specifically, how a company reacts to market trends and demand. This refers to an individual or group acting on their own to bring a concept or a vision to fruition. It generally refers to the ability and willingness to pursue opportunities on one's own terms. In a business context, it refers to taking action without regard to organizational constraints in order to establish and run a venture smoothly (Rauch 2016).

1.1.3 Entrepreneurial Orientation and Performance of SMEs

Performance metrics are employed to assess how well a company's operations align with its established goals and objectives. Business performance indicates the level of success a company has achieved over a specific period. Lee and Peterson (2015) highlight that possessing an entrepreneurial orientation is crucial for a firm to achieve high performance. Factors such as innovation, proactivity, and risk-taking play significant roles in influencing corporate performance. Empirical evidence shows that businesses with a strong entrepreneurial orientation generally outperform those without it (Covin et al., 2018).

Given the intense competition and rapid market changes, professionals must seek effective strategies to gain a competitive advantage. Empowerment of small and medium-sized enterprises must be proactive and aimed at engaging in the global market rather than remaining confined to local competition.

Many SMEs in Kenya struggle with low innovation levels and poor performance, which jeopardizes their operations. Challenges in marketing products, such as inadequate market knowledge, limited technological expertise, and weak networking skills, contribute to their survival issues. Additionally, inadequate financial management, particularly in separating personal and business finances, exacerbates these problems (Machmud, 2019).

The lack of preparation impairs SMEs' capacity to compete on a global scale, often resulting from a deficiency in entrepreneurial initiative and poor management practices. Consequently, SMEs are unable to fully leverage their potential to enhance performance and competitiveness in both local and international markets. According to Machmud and Ahman (2019) and Machmud et al. (2018), SMEs struggle to adapt to the ever-changing business environment. This struggle is largely due to restricted access to capital from formal financial institutions, which limits their ability to actively seize opportunities. Moreover, SMEs often display lower levels of innovation and creativity due to constrained financial resources. To capitalize on new opportunities and align with the principles of entrepreneurial orientation (E.O.), SMEs need to be adaptable, innovative, and proactive, while also taking calculated risks (Walter et al., 2018).

1.2 Problem Statement

SMEs are a crucial since they are drivers of economic growth and development in Kenya, constituting over 90% of all businesses in Nairobi County (Munene & Waweru, 2019). These enterprises significantly contribute to employment creation and Gross Domestic Product (GDP). However, their sustainability and growth remain a significant challenge. SMEs in Nairobi County face multiple constraints, including limited access to financial resources, intense market competition, and inadequate managerial capabilities (Ombati & Ondabu, 2020). These challenges often result in low profit margins, limited scalability, and reduced competitive advantage. Consequently, many SMEs in Kenya operate more out of necessity rather than opportunity, which stifles their long-term viability.

Statistical evidence highlights the precarious nature of SMEs in Kenya. It is estimated that 60% of small businesses fail within their first few months of operation, though annual SME failure rates exceed 60% (Ngugi, 2020). This alarming trend suggests a fundamental gap in strategic business approaches, particularly in adopting Entrepreneurial Orientation (E.O). Entrepreneurial Orientation encompasses risk-taking, innovation, and proactive business strategies is one of the ways recognized widely as a critical factor in enhancing business performance (Lumpkin & Dess, 1996). However, the extent to which SMEs in Nairobi County integrate E.O into their operations remains unclear. Given the high failure rate and the need for competitive sustainability, this study seeks to examine the relationship between Entrepreneurial Orientation and the performance of SMEs in Nairobi County.

Numerous research studies have established a beneficial interrelationship between entrepreneurial orientation and the performance of small and medium-sized enterprises.

This positive relationship is evidenced by various indicators such as enhanced sales, profitability, and growth (Hafeez et al., 2020; Raza 2017; Sial 2018)) posit a linear relationship between environmental orientation (E.O.), innovation, branding, and company performance. On the other hand, it has been shown that other variables, either within or external to the organization, can also have an effect on these linkages.

The research carried out by Otieno et al. (2020) explored how an entrepreneurial mindset impacts the performance of Kenyan manufacturing companies participating in the east African regional integration process. Mwangi and Ngugi (2020) carried out a study to analyze how an entrepreneurial mindset impacts the growth and development of micro and small enterprises in Kerugoya region. Mwaura et al. (2015) conducted an analysis to explore how a female entrepreneur's perspective impacts the overall performance of her business. Gathungu et al. (2020) investigated the connections between entrepreneurial orientation, networking, external environmental factors, and firm performance. Additionally, Okeyo (2020) analyzed the impact of business development services on the performance of SMEs in Kenya. Despite these studies, research on how entrepreneurial orientation affects SME success remains limited. This study seeks to assess the relationship between entrepreneurial orientation and SME performance specifically in Nairobi county.

1.3 Research Objectives

1.3.1 The General Objective

The research explored relationship between entrepreneurial orientation and the performance of small and medium-sized enterprises in Nairobi county.

1.3.2 Specific Objectives

This research was conducted with the following specific objectives as its foundation;

- i. To analyze the relationship between innovation and performance of small and medium-sized enterprises in nairobi county.
- ii. To analyze relationship between proactive measures and the performance outcomes of small and medium-sized enterprises in nairobi county.
- iii. To evaluate the relationship between risk-taking propensity and performance outcomes of SMEs in nairobi county.
- iv. To investigate relationship between opportunity obsession and performance of small and medium-sized enterprises in nairobi county.

1.4 Research Hypothesis

The following research hypotheses guided the study:

- i. **H0₁:** Innovativeness has no statistically significant relationship with SME performance in nairobi county.
- ii. **H0₂:** Proactiveness has no statistically significant relationship with SME performance in nairobi county.
- iii. **H0₃:** Risk-taking propensities have no statistically significant relationships with SME performance in nairobi county.
- iv. **H0₄:** Opportunity obsessions have no statistically significant relationships with SME performance in nairobi county.

1.5 Significance of the Study

1.5.1 SME's Owners and Managers

This research study is geared to provide SME owners and managers with valuable insights into the role of entrepreneurial orientation in driving business success. EO is a strategic framework emphasizing the importance of innovativeness, risk-taking and proactive behavior for achieving business success. Once the owners and Managers are aligned with EO, they can better pose their business strategies to improve profitability, market share, and growth. This knowledge will empower them to make informed decisions regarding product development, market entry, and competitive strategies. Moreover, by applying these insights, SME owners can create a sustainable competitive advantage, optimize operational performance, and achieve long-term success in a highly competitive market environment like Nairobi County.

1.5.2 Policy Makers

The findings of this study will be invaluable for policymakers in developing strategies that supporting the growth and sustainability of SMEs. By identifying the key entrepreneurial behaviors that positively impact SME performance, policymakers can craft regulations and provide incentives that encourage innovation, risk-taking, and proactive strategies within the SME sector. Additionally, the study will offer guidance on the kinds of policies that can stimulate entrepreneurial activity, improve access to finance, and foster a conducive business environment. This can lead to a more robust SME sector, boosting economic growth, job creation, and overall development in Nairobi County.

1.5.3 Financial Institutions

The research will provide financial institutions, including banks and microfinance institutions, with a deeper understanding of the entrepreneurial behaviors of SMEs, allowing them to tailor financial products and services more effectively. By recognizing the risk appetite, growth potential, and business strategies of SMEs, financial institutions can offer customized lending solutions, credit facilities, and advisory services that address the unique needs of these businesses. Understanding the relationship between entrepreneurial orientation and performance will also help institutions assess the risk associated with lending to SMEs, leading to more informed lending decisions and improved financial products that foster business growth and sustainability.

1.5.4 Researchers and Academicians

This study will significantly contribute to the existing body of knowledge on entrepreneurship and SME performance. By focusing on the relationship between entrepreneurial orientation and business outcomes, the study delivers new insights to serve as a foundation for further research. Researchers and academicians will be able to build upon this work to explore other factors influencing SME success, both within Nairobi County and in other regions. The findings can also inspire new theoretical frameworks or refinements to existing ones, contributing to the academic field of entrepreneurship and helping to bridge the gap between theory and practice in SME management.

1.5.5 Business Development Organizations

NGOs, incubators, and consultancy firms that support SMEs will find this study highly useful in designing targeted programs that aim to build entrepreneurial capacity. By understanding how entrepreneurial orientation influences SME performance, these organizations can develop training materials and workshops that specifically address areas such as risk management, innovation, and market expansion. The findings will also guide the creation of mentorship programs and capacity-building initiatives that equip SME owners with the necessary skills to navigate challenges and seize opportunities. This can enhance the performance of SMEs, making them more competitive and resilient in the marketplace.

1.6 Scope of the Study

This research examined key dimensions of entrepreneurial orientation, including innovativeness, proactiveness, risk-taking propensity, opportunity obsession and their relation to SME performance. Performance indicators such as profitability, market share, business-growth, and sustainability were analyzed. The study was conducted in Nairobi County, Kenya, which hosted a significant number of SMEs across various industries. The region was selected due to its diverse entrepreneurial ecosystem and the high concentration of SMEs that contributed to economic growth.

A descriptive research design was adopted to establish relations between entrepreneurial orientation and SME performance. Quantitative approach was applied with data collected through structured questionnaires distributed to SME owners and managers. Data analysis involved statistical methods such as correlation and regression analysis to determine the

significance of relationships. The study was conducted from March 2024 to November 2024, covering data collection, analysis, and reporting phases within this period.

1.7 Limitations of the Study

This study faced several limitations that impacted the data collection process, analysis, and generalizability of the findings. One key limitation was limited data availability, as some SME owners were unwilling to share financial or performance-related data due to confidentiality concerns. To mitigate this, respondents were assured of confidentiality and anonymity, with data being aggregated to prevent the identification of individual businesses. Another challenge was non-response from selected respondents, where SME owners or managers declined participation or failed to complete the questionnaires. To address this, follow-ups through phone calls and emails were conducted, and incentives such as summary reports were offered to encourage participation.

Time constraints also posed a challenge, as the study timeline was affected by delays in data collection or respondent availability. To ensure adherence to the schedule, early distribution of questionnaires was prioritized, along with timely reminders to respondents. Additionally, generalizability issues arose, as findings from Nairobi County were not fully applicable to SMEs in other regions due to differences in economic and business environments. To mitigate this, efforts were made to select a representative sample covering various SME sectors within Nairobi County. Lastly, the study encountered possible bias in responses, where respondents provided socially desirable answers rather than truthful ones. To minimize this risk, questions were framed in a neutral manner, and respondents were assured that their answers would not have negative consequences.

1.8 Delimitations of the Study

This study was delimited in several ways to ensure focus and manageability. In terms of geographical scope, the study was limited to Nairobi County and did not extend to SMEs in other counties. This choice was based on the county's high concentration of SMEs and its diverse business environment, which provided a suitable setting for analyzing entrepreneurial orientation. Regarding the conceptual scope, the study focused solely on entrepreneurial orientation and its impact on SME performance, specifically examining dimensions such as innovativeness, proactiveness, risk-taking propensity, and opportunity obsession. Other possible determinants of SME performance, such as government policies, economic conditions, or access to capital, were beyond the scope of this research.

Methodologically, the study employed a quantitative approach, relying on structured questionnaires to collect numerical data for statistical analysis. This approach excluded qualitative insights from in-depth interviews or case studies, which could have provided more context but were not within the scope of this study. Lastly, in terms of industry scope, the research targeted SMEs from various sectors in Nairobi rather than focusing on a single industry. This broad approach allowed for a more comprehensive understanding of how entrepreneurial orientation affected SME performance across different business types.

1.9 Operational Definitions of Terms

Competitive Aggressiveness: It refers to proactive and assertive entrepreneurial strategies aimed at gaining a competitive market advantage and surpassing rivals through aggressive tactics (Kirby, 2020).

Entrepreneurial Orientation: It refers to a firm's strategic posture, including innovativeness, risk-taking, proactiveness, and competitive aggressiveness, to achieve business success in dynamic markets (Cho & Lee 2018).

Innovativeness: It refers to entrepreneurs' ability to introduce novel ideas, products, or business models that create market value and drive business growth (Kirby, 2020).

Leadership Qualities: It refers to an entrepreneur's ability to inspire and guide teams toward achieving business goals in uncertain and competitive environments (Moore & Buttner, 2019).

Opportunity Obsession: It refers to entrepreneurs' intense dedication to identifying, pursuing, and maximizing business opportunities based on market needs and customer demands (Begley & Boyd, 2019).

Proactiveness: It refers to entrepreneurs' tendency to anticipate opportunities, take initiative, and drive strategic actions before competitors react (Kirby, 2020).

Risk-Taking Propensity: It refers to an entrepreneur's willingness to engage in uncertain business ventures with potential high rewards despite possible losses (Cho & Lee 2018).

Small and Medium-sized Enterprises (SMEs) : SME refers to businesses with limited number of employees, assets, and revenue that are smaller in size and scale than larger corporations. SMEs' characteristics are relatively small and they often operate in sectors such as manufacturing, retail, services, or agriculture.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter offers a comprehensive review of relevant concepts and empirical evidence that underpin the theories discussed earlier, along with a critical evaluation of these existing theories. It extensively explores how the innovativeness and creativity of entrepreneurs influence SME performance, examining their leadership traits, risk-taking attitudes, and focus on opportunities. Additionally, the chapter provides the theoretical and conceptual foundations for the research.

2.2 Theoretical Review

This section centres on the hypotheses that hold significance to the research. This list encompasses Schumpeter's innovation theories and the characteristics approach to the social-cultural view of entrepreneurship orientation.

2.2.1 Schumpeter's Innovation Theory

Schumpeter's Innovation Theory, introduced by economist Joseph Schumpeter in his seminal work *The Theory of Economic Development* of 1934, presents a vital framework for understanding the role of innovation in entrepreneurship. Schumpeter's central argument was that entrepreneurship is not merely about management but about the introduction of new ideas, processes, or products that disrupt existing markets. He termed this process "creative destruction," where innovation leads to the destruction of outdated

business models and the creation of new ones, ultimately fostering economic growth (Schumpeter, 1934).

Schumpeter's Innovation Theory is directly relevant to the study of SME performance, particularly in the context of Nairobi County, where businesses must navigate rapidly changing markets. Schumpeter's theory suggests that innovation is the primary driver of business performance. By introducing new products, processes, or business models, entrepreneurs can differentiate their firms from competitors, attracting customers and increasing profitability. Innovation, in Schumpeter's view, is a key factor in the creation of value, enabling businesses to increase efficiency and exploit new market opportunities (Schumpeter, 1934).

For SMEs in Nairobi County, Schumpeter's theory offers a compelling explanation for how innovation can lead to improved business outcomes. SMEs that embrace innovation—whether through technological advancements, product development, or process improvements—are more likely to gain a competitive advantage. By continuously adapting to market demands and introducing innovative solutions, SMEs can enhance their market position and ultimately achieve better performance outcomes. Schumpeter's theory thus supports the objective of analyzing the relation between innovation and the performance of SMEs, emphasizing that businesses that innovate effectively are more likely to thrive in competitive environments.

One of the main strengths of Schumpeter's Innovation Theory is its clear emphasis on the transformative role of innovation in business success. This theory helps explain why firms

that constantly innovate tend to experience growth and improved performance, making it particularly relevant for SMEs in dynamic markets like Nairobi County. Furthermore, Schumpeter's concept of "creative destruction" emphasizes the importance of entrepreneurship in driving economic change, which is particularly useful for understanding how SMEs can disrupt traditional markets through innovation (Schumpeter, 1934).

Despite its strengths, Schumpeter's Innovation Theory has some limitations. One criticism is that it tends to overlook the risks associated with innovation, particularly for SMEs that may lack the resources and capacity to absorb the costs of failed innovations (Nelson & Winter, 1982). Moreover, Schumpeter's focus on the entrepreneur as the central agent of change may downplay the role of external factors, such as market conditions or government policy, in influencing innovation. For SMEs, especially those in developing markets like Nairobi County, these external factors can have a significant impact on their ability to innovate effectively (Burgelman, 1983).

2.2.2 Entrepreneurial Orientation Theory

The concept of Entrepreneurial Orientation (EO) was first introduced by Miller in 1983 and later expanded by Lumpkin and Dess (1996). EO is a multidimensional construct that reflects the strategic orientation of a firm and its approach to entrepreneurship. The key dimensions of EO are innovation, proactivity, and risk-taking, which are thought to influence a firm's ability to compete in dynamic markets (Miller, 1983). EO theory suggests that firms with a strong entrepreneurial orientation are more likely to engage in activities

that lead to superior performance outcomes, such as introducing new products or services, anticipating market trends, and taking calculated risks (Lumpkin & Dess, 1996).

The EO theory provides an insightful framework for understanding how entrepreneurial behavior influences SME performance. The dimensions of innovation, proactivity, and risk-taking play a crucial role in shaping a firm's competitive advantage. For SMEs in Nairobi County, adopting an entrepreneurial orientation can help businesses navigate challenges and capitalize on opportunities. Innovation, as a component of EO, is critical for SMEs seeking to differentiate themselves in a competitive market. Proactivity, on the other hand, involves anticipating changes in the market and acting ahead of competitors, which can lead to first-mover advantages and improved performance (Lumpkin & Dess, 1996).

Risk-taking, another key dimension of EO, involves making bold decisions in uncertain environments. SMEs that are willing to take risks—such as investing in new technologies or entering new markets—can often reap high rewards if these ventures are successful. The EO theory thus directly supports the study objective of analyzing the relations between proactivity and SME performance, suggesting that proactive firms are better equipped to achieve sustainable growth and long-term success (Lumpkin & Dess, 1996).

A significant strength of the EO theory is its ability to provide a clear, structured framework for analyzing the entrepreneurial behaviors that drive performance. The theory's focus on innovation, proactivity, and risk-taking offers practical insights into the key behaviors that influence SME success. For businesses in Nairobi County, where competition and market

conditions are constantly evolving, the EO framework provides actionable strategies to enhance performance through entrepreneurial orientation (Covin & Slevin, 1989).

While the EO theory is valuable, it has limitations. One critique is that the theory assumes that the dimensions of EO—innovation, proactivity, and risk-taking—are always beneficial for business performance. However, in practice, excessive risk-taking or overly aggressive proactivity can lead to negative outcomes, particularly for SMEs that may not have the resources to manage such risks effectively. Moreover, the theory does not sufficiently address external factors, such as market volatility, that can influence the effectiveness of entrepreneurial behavior (Wiklund & Shepherd, 2005).

2.2.3 Social Cultural Theory of Entrepreneurial Orientation

The Social Cultural Theory of Entrepreneurial Orientation draws on insights from sociology and psychology to explain how social and cultural factors influence entrepreneurial behavior. This theory suggests that entrepreneurship is not only shaped by individual traits but also by the social and cultural context in which an entrepreneur operates. Factors such as cultural values, social networks, and community norms play a significant role in shaping an entrepreneur's approach to risk-taking, innovation, and opportunity recognition (Rauch et al., 2005).

The Social Cultural Theory of Entrepreneurial Orientation provides an important perspective on how external social and cultural influences impact the entrepreneurial orientation of SMEs. In Nairobi County, where SMEs often operate within close-knit communities, social capital and cultural factors can significantly influence an

entrepreneur's willingness to pursue new opportunities and take risks. The theory suggests that opportunity obsession, a key element of entrepreneurial orientation, is often shaped by social and cultural factors such as family support, community values, and local traditions (Rauch et al., 2005).

This theory aligns with the objective of investigating the relationships between opportunity obsession and SME performance, as it helps explain how entrepreneurs' social networks and cultural context can fuel their drive to identify and exploit new opportunities. In Nairobi County, where SMEs frequently rely on social relationships for resources and market access, the Social Cultural Theory provides a valuable framework for understanding how these networks influence entrepreneurial behavior and business outcomes.

One of the key strengths of the Social Cultural Theory is its focus on the external factors that shape entrepreneurial behavior. By considering the role of social networks and cultural norms, this theory provides a broader and more contextualized understanding of entrepreneurship, making it particularly useful in diverse and dynamic environments like Nairobi County (Shane, 2003). The theory also highlights the importance of community and social capital in fostering entrepreneurial activity, which is particularly relevant for SMEs in developing regions.

Despite its strengths, the Social Cultural Theory has limitations. One challenge is its tendency to downplay individual characteristics and personal motivations, which also play a crucial role in shaping entrepreneurial behavior (Markman et al., 2005). Additionally, the

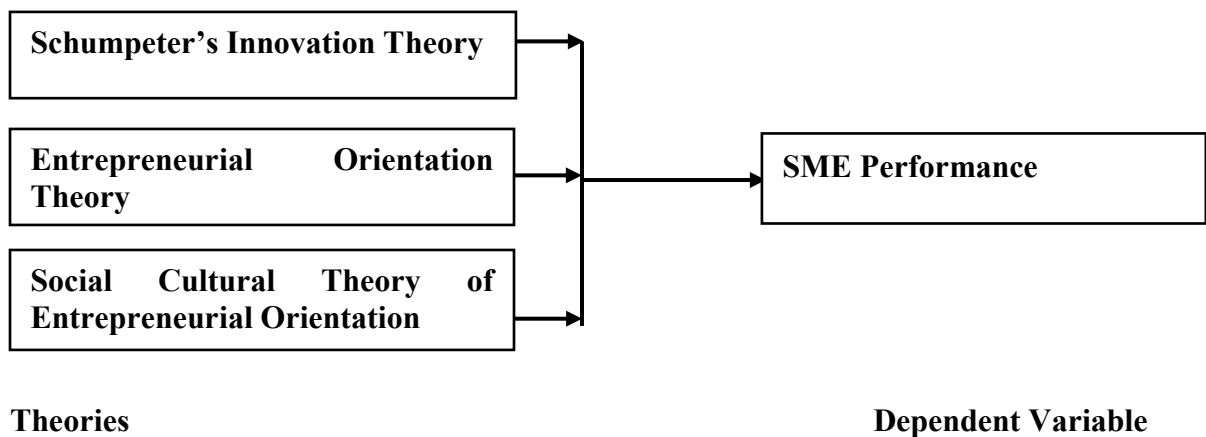
theory's focus on cultural and social factors can make it difficult to draw clear, actionable insights about how entrepreneurs can influence their own behaviors. Moreover, the influence of social and cultural factors can vary significantly across different regions and communities, making it less universally applicable in some contexts.

2.3 Theoretical framework

Through combining the above hypotheses, we can better understand the factors influencing SME performance within Nairobi's unique ecosystem. Each theory contributes a valuable piece to the puzzle, highlighting the importance of innovation, entrepreneurial traits, social and cultural influences, and strategic orientation in driving SME success. This theoretical framework synthesizes key concepts from Schumpeter's innovation theory, the traits models theory of entrepreneurial orientation, the social and cultural theory and the Entrepreneurial orientation theory, providing a holistic perspective of SMEs' performance. Figure 2.1 below illustrates the theoretical framework.

Figure 2. 1:

Theoretical Framework



Source: Auth, (2025)

2.3 Empirical Literature Review

An empirical literature review involves analyzing and synthesizing previous research studies that investigate specific phenomena or relationships. It examines data-driven findings, methodologies, and outcomes, highlighting trends, patterns, and gaps. This review helps establish a theoretical foundation, identify inconsistencies, and provide insights for further research or practical application in the field. The empirical review follows a funnel approach, beginning at the global level, progressing to the regional, country, and county levels, and finally presenting the identified research gaps.

2.3.1 Entrepreneurial Orientation and Performance of Small and Medium Enterprises.

Lumpkin and Dess (2001) conducted a study titled *The Role of Entrepreneurial Orientation in Firm Performance* using a quantitative research design. The study targeted global firms across multiple industries, using a sample size of 500 firms. Data were analyzed using regression analysis and structural equation modeling (SEM). The findings indicated that entrepreneurial orientation (EO) positively influenced firm performance, particularly in dynamic markets. However, the study did not consider the impact of government regulations on EO's effectiveness, which presents a research gap.

Kraus et al. (2012) examined *Entrepreneurial Orientation and International SME Performance* using a cross-sectional survey design. The study targeted SMEs in Germany, the United States, and China, with a sample size of 420 firms. The study employed partial

least squares structural equation modeling (PLS-SEM) for data analysis. Findings showed that innovation and risk-taking significantly contributed to performance, but cultural and economic differences affected how EO translated into success. A research gap exists regarding how EO functions in economies with unstable policies.

Hughes and Morgan (2007) investigated The Effect of Entrepreneurial Orientation on Business Growth in Australia using a longitudinal research design. The study targeted 300 Australian SMEs and applied multiple regression analysis. Findings showed that EO significantly enhanced firm growth and adaptability. However, the study did not explore how external market dynamics influence the sustainability of EO, presenting a research gap.

Covin and Slevin (2008) studied Entrepreneurial Orientation in North American Firms using a survey research design. The study sampled 450 firms across the United States and Canada and applied SEM for data analysis. Findings suggested that firms with a strong EO performed better in volatile environments. However, the study did not address how differences in industry type affect EO's effectiveness, creating a research gap.

Isichei et al. (2020) studied The Role of Structural Infrastructure in Entrepreneurial Orientation and SME Performance in Nigeria using a survey research design. The study targeted 377 SMEs across Nigeria's six geopolitical zones. SmartPLS v3 and PLS-SEM were used for data analysis. The findings revealed that innovativeness and proactiveness positively impacted SME success, while structural infrastructure significantly mediated EO

and organizational performance. However, the research did not examine how variations in financial access affect EO in different Nigerian states, highlighting a research gap.

Okoli et al. (2021) investigated Entrepreneurial Orientation and SME Growth in Southeast Nigeria using a mixed-method research approach. The study targeted 366 SMEs from five southeastern states in Nigeria. Data were analyzed using thematic analysis and multiple regression. Findings revealed that SMEs with a strong EO performed better, but inconsistent policies hindered long-term growth. The study did not explore the role of technological advancements in enhancing EO's impact, presenting a research gap.

Afenya et al.(2019) analyzed Technological Adoption and Entrepreneurial Orientation in Ghanaian SMEs using a quantitative research design. The study targeted 350 SMEs and used regression analysis for data interpretation. Findings suggested that technology-mediated EO strategies improved efficiency and business scalability. However, the study did not consider how the digital divide among SMEs affects EO implementation, leaving a research gap.

Moyo et al. (2019) conducted a study on Entrepreneurial Orientation and Business Success in South Africa using a descriptive survey design. The study targeted 280 SMEs in Johannesburg and Cape Town, using regression analysis for data analysis. Findings showed that SMEs that embraced EO experienced higher financial performance. However, the study did not consider the impact of industry-specific challenges, creating a research gap.

Njuguna and Kimani (2020) examined Risk-Taking and Innovativeness among SMEs in Uganda using a survey research design. The study targeted 300 SMEs and used PLS-SEM for data analysis. Findings indicated that SMEs engaging in calculated risk-taking and proactive market entry had better sustainability. However, the study did not investigate the influence of financial literacy on EO effectiveness, leaving a research gap.

Tshikovhi and Shambare (2021) researched Entrepreneurial Orientation and Market Adaptability in Zimbabwean SMEs using a quantitative research design. The study targeted 260 SMEs and applied multiple regression analysis. Findings indicated that EO fosters market adaptability but is constrained by economic instability. The study did not analyze the long-term implications of EO strategies, presenting a research gap.

Wambugu and Gichira (2020) examined Entrepreneurial Orientation and Financial Access in Kenyan SMEs through a descriptive survey design. The study targeted 410 SMEs in Nairobi and Mombasa. Regression analysis and SEM were used for data analysis. Findings showed that proactiveness and innovation contributed significantly to business growth. However, financial constraints limited risk-taking behaviors. The study did not assess the role of government-backed financial support programs, creating a research gap.

Kamau et al. (2022) studied Entrepreneurial Orientation and SME Performance in Nairobi County using a cross-sectional survey research design. The study targeted 250 SMEs, applying regression analysis to assess the EO-performance relationship. Findings showed that market research, innovation, and calculated risk-taking enhanced business survival.

However, the study did not consider the role of mentorship programs in fostering EO, leaving a research gap.

Mwangi and Otieno (2023) researched the influence of Entrepreneurial Orientation on Startup Success in Kenya using a case study research design. The study targeted 200 startups in Nairobi, using thematic analysis and regression techniques. Findings indicated that startups that implemented EO principles had a higher success rate. However, the study did not explore the gender-based disparities in EO implementation, presenting a research gap.

2.3.2 Innovativeness and SMEs' Performance

Ndesaulwa and Kikula (2019) investigated how innovation influences the success of small businesses, finding that firms engaged in innovative practices experienced superior turnover, growth, employment opportunities, and profitability compared to those that did not innovate. Their study, conducted in Tanzania using a survey research design, targeted 250 SME owners and managers. The findings confirmed that both product and process innovations significantly impact firm growth. However, the research gap identified was the lack of focus on how innovation contributes to long-term business sustainability.

Ljiljana and Durdana (2021) examined the relationship between market orientation and innovation across seven case studies in Croatia. They discovered that customer demands and competitors' innovations often hinder creativity and product development, yet firms continued to value market orientation principles for commercialization success. The study emphasized the challenge of balancing innovation with market responsiveness but did not

explore how SMEs could overcome these barriers, creating a gap in practical strategic guidance.

Andrea and Marco (2018) explored the role of research and development (R&D) and technology acquisition in fostering innovation among 3,000 Italian industrial firms. Their findings indicated that R&D significantly predicted the implementation of innovative practices, while technology acquisition mainly increased the likelihood of process innovation. This study provided valuable insights into the mechanisms of innovation adoption but lacked a focus on small enterprises, leaving a gap in understanding how SMEs with limited resources can leverage these factors.

Masood et al. (2019) examined how different types of innovation—product, process, marketing, and organizational affect firm performance in Pakistan. Their study, involving 150 participants from production, R&D, and marketing departments of manufacturing firms, found that increasing innovativeness was crucial for enhancing organizational performance. They highlighted that organizational innovation had a greater impact on process innovation than other forms. However, the research did not analyze the barriers SMEs face in implementing such innovations, leaving an area for future investigation.

At the regional level, six studies provide additional perspectives on innovativeness and SME performance. For instance, Okpara (2017) conducted a study in South Africa using a cross-sectional research design, targeting 400 SME owners. The research concluded that technological innovation significantly improved firm performance. However, the study did not differentiate between the impact of various types of technological innovations.

Kamunge et al. (2018) explored innovation strategies among SMEs in Kenya and Uganda, using interviews and surveys with 300 business owners. The study emphasized that businesses embracing digital transformation outperformed competitors. Nevertheless, it failed to account for financial constraints limiting SMEs' ability to adopt digital tools.

In Nigeria, Adebayo and Olagunju (2019) focused on how SMEs adopt green innovation practices. The study surveyed 250 manufacturing firms and found that eco-friendly innovations enhanced operational efficiency. However, the study did not assess the long-term economic implications of adopting green innovations.

Kimutai and Kwamboka (2020) investigated the influence of business incubators on SME innovativeness in East Africa, using qualitative interviews with incubator managers and SME founders. Their findings suggested that incubators play a crucial role in fostering innovation, but the study did not explore how different incubator models affect SMEs in various industries.

In Ghana, Mensah et al. (2021) examined the role of social networks in driving SME innovation, targeting 200 business owners in the retail and manufacturing sectors. They found that strong networks positively influenced innovation adoption. However, the study did not consider the impact of digital networking platforms, presenting an avenue for future research.

A study by Moyo and Sibanda (2022) in Zimbabwe assessed the role of financial access in SME innovation. They surveyed 280 businesses and found that firms with better access to

credit were more likely to innovate. The research did not, however, explore alternative funding mechanisms beyond traditional credit institutions.

At the local level, three studies provide context-specific insights. Wanjiru (2019) investigated the impact of mobile banking on SME innovation in Nairobi, using a survey of 150 businesses. The study revealed that mobile banking solutions enhanced access to financial services, promoting business innovation. However, it did not assess the risks associated with digital transactions.

Otieno et al. (2020) examined the relationship between entrepreneurial training and innovation in Mombasa, surveying 180 SMEs. The study found that training programs significantly improved business innovativeness but did not consider the effectiveness of different training methodologies.

Kariuki (2021) explored government policy support for SME innovation in Nakuru, using a case study approach involving 100 business owners. The findings indicated that favorable policies encouraged innovation, but the study did not assess how bureaucracy and regulatory hurdles affected policy implementation.

2.3.3 Proactiveness and SMEs' Performance

Covin and Slevin (2018) conducted a study on the impact of proactiveness on SMEs' growth in the United States. They adopted a quantitative research design, using a sample of 420 SMEs. Data were collected through surveys and analyzed using structural equation modeling (SEM). Their findings indicated that proactive firms outperformed their competitors by identifying market opportunities earlier and adjusting their business

strategies accordingly. However, the study was limited to SMEs in the technology sector, leaving a gap in understanding how proactiveness affects SMEs in other industries.

Similarly, Wang and Altinay (2019) examined the role of proactiveness in the growth of SMEs in China. Using a mixed-methods research design, they surveyed 350 SMEs and conducted in-depth interviews with 20 entrepreneurs. The study found that proactiveness positively influenced business expansion and customer retention. Despite these insights, the study primarily focused on urban SMEs, overlooking rural-based enterprises that may face different challenges in implementing proactive strategies.

In another global study, Rauch et al. (2020) investigated proactiveness and its relationship with firm performance in Germany. Their research adopted a longitudinal design with a sample of 300 manufacturing SMEs. The study revealed that proactive firms experienced higher revenue growth and market share expansion. However, the study did not account for the influence of external economic factors on SME performance, presenting a research gap.

Koe and Majid (2021) analyzed the impact of proactiveness on SMEs in Malaysia using a cross-sectional survey of 280 enterprises. The study used regression analysis and found a significant positive correlation between proactiveness and financial performance. A key limitation was the lack of sectoral differentiation, as all SMEs were analyzed collectively rather than considering industry-specific differences.

Adefulu et al. (2018) examined the effect of proactiveness on SME growth in Ogun State, Nigeria. They surveyed 386 SMEs using a structured questionnaire and analyzed data

through descriptive and inferential statistics. The study confirmed a strong positive relationship between proactiveness and SME growth. However, the research focused only on financial performance, leaving out non-financial performance indicators such as customer satisfaction and brand loyalty.

In South Africa, Mthimkhulu and Aziakpono (2019) explored proactiveness in small businesses using a sample of 400 SMEs. Their study applied a case study approach and qualitative interviews. Findings suggested that SMEs with proactive strategies experienced better market adaptability and sustained growth. However, the study was limited to urban businesses, creating a gap in rural SME analysis.

A study by Amankwah and Anim-Somuah (2020) in Ghana examined proactiveness and SME success using a survey of 350 business owners. The research employed a quantitative design with correlation analysis and found that SMEs that embraced proactiveness reported improved market positioning. Nonetheless, the study failed to consider the impact of external macroeconomic conditions such as inflation and currency fluctuations.

Further, Njoroge and Kibet (2021) investigated how proactiveness influenced SMEs' financial success in Kenya. They conducted a survey of 280 SMEs using regression analysis. The study concluded that proactive firms were more likely to achieve financial sustainability. However, it did not explore the challenges that hinder SMEs from adopting proactive strategies.

Wambugu et al. (2019) analyzed proactiveness and SME growth in Nairobi County using a sample of 200 businesses. Their study found a significant relationship between

proactiveness and business survival rates. The limitation of this study was that it focused primarily on formal SMEs, neglecting the informal sector, which forms a significant portion of Kenya's economy.

In Mombasa County, Onyango and Muturi (2020) examined proactiveness in the hospitality sector by surveying 150 SMEs. Their findings highlighted the role of proactive decision-making in enhancing customer satisfaction and business sustainability. However, the study was limited in scope as it did not address other industries beyond hospitality.

Kamau and Wainaina (2021) investigated the impact of proactiveness on agribusiness SMEs in Kiambu County. Using a survey of 180 agribusiness owners, the study found that proactive strategies led to improved productivity and supply chain efficiency. Despite its contributions, the study did not consider the influence of government policies on SMEs' ability to be proactive.

2.3.4 Risk-taking Propensity and SMEs' Performance

Forlani and Mullin (2020) examined how risk-taking behaviors influence firm outcomes across multiple industries in the United States. Using a longitudinal research design with panel data from 500 SMEs, the study employed regression analysis to determine the effect of risk-taking on business growth. The findings revealed that firms engaging in moderate-risk ventures achieved higher profitability than those that were either too cautious or overly aggressive in their risk-taking strategies. However, the study identified a research gap in understanding how cultural and economic contexts shape risk-taking behavior among SMEs in different regions.

Dhliwayo and Vuuren (2019) conducted a study in South Africa analyzing how an entrepreneurial mindset influences risk-taking and business success. The study adopted a qualitative approach, utilizing in-depth interviews with 45 SME owners across various sectors. The results indicated that entrepreneurs who embraced calculated risks were more likely to achieve long-term success. However, the study lacked empirical quantitative analysis to validate its claims, necessitating further research using statistical modeling.

Mautra (2018) investigated the interplay between entrepreneurship and risk tolerance among small businesses in India. Through a survey of 320 SMEs and statistical analysis via structural equation modeling (SEM), the study concluded that risk-taking significantly impacts innovation and firm sustainability. However, the research acknowledged a limitation in its cross-sectional design, which did not account for changes in risk-taking behavior over time.

Another global study by Okafor and Uchenna (2021) explored risk-taking strategies in the Nigerian SME sector. The study utilized a mixed-method approach, combining survey data from 250 SMEs with case studies of five high-growth firms. The findings showed that firms engaging in calculated risk-taking experienced enhanced market penetration. However, the study did not account for external factors such as economic instability, which may influence risk-taking decisions.

Kiprotich et al. (2020) examined the relationship between risk-taking behavior and performance in SMEs in Nakuru County, Kenya. Using an explanatory research design and a stratified sample of 214 SMEs, the study relied on questionnaires for data collection. The

results showed a reasonably positive relationship between risk-taking and performance. However, it was noted that taking unnecessary risks did not significantly enhance SME success, indicating a gap in understanding how risk-taking should be strategically managed.

In Tanzania, Kitigin (2021) adopted an ex-post facto research design to explore risk-taking and business performance among SMEs in Eldoret Municipality. The study assessed whether SMEs employed market expansion strategies and undertook bold measures to enhance success. Findings indicated a strong correlation between risk-taking behavior and financial growth. However, the research did not examine the role of government support in mitigating negative effects of excessive risk-taking.

A study by Njoroge and Ouma (2020) focused on SMEs in Uganda, utilizing a survey of 270 small business owners. The study found that firms with high-risk tolerance experienced greater scalability and financial resilience. However, the study did not account for sector-specific variations in risk-taking behaviors.

Locally, Nyaga and Mwangi (2019) examined the effect of risk-taking on SMEs' performance in Nairobi County, Kenya. Using a descriptive research design and a sample of 150 SMEs, the study found that risk-taking was essential for market expansion. However, it highlighted a gap in risk management strategies, suggesting that firms often lack structured approaches to mitigate potential downsides of risk-taking.

Another study by Kariuki and Mutua (2021) focused on risk-taking among SMEs in Mombasa County, using a case study approach involving 50 businesses. The findings

indicated that risk-taking positively influenced revenue generation. However, the study lacked a longitudinal perspective to assess how risk-taking behavior evolves over time.

2.3.5 Opportunity Obsession and SMEs' Performance

Hartono and Ardini (2022) conducted a study in Jakarta, Indonesia, examining the impact of business model innovation on SME performance. Using a moderated regression analysis with a sample of 100 company owners, the study found that SMEs' ability to identify opportunities and enhance organizational capabilities significantly influenced performance. The findings indicated that business model innovation mediated the relationship, reducing the direct influence of opportunity recognition while strengthening organizational capability. However, the study was limited to Jakarta and did not explore sector-specific differences.

Adomako and Ahsan (2021) studied the effectiveness of established SMEs in Ghana, focusing on entrepreneurial passions related to innovation, development, and establishment. Using a resource contingency perspective, they examined the interaction between entrepreneurial orientation, resource endowment, and performance. The study, based on lagged data from 193 SMEs, confirmed that financial resource availability and flexibility significantly impacted SME success. However, the study did not consider external market dynamics that could influence opportunity recognition.

Min and Kim (2022) explored the success of SMEs in emerging markets by incorporating the concept of "opportunity-seizing capability" (OSC) from the dynamic capability framework. Using hierarchical ordinary least squares modeling on a sample of 215

Information and technology sector of SMEs, the study found that OSC positively influenced relative performance and market expansion. The study emphasized that high environmental uncertainty amplified the impact of OSC. However, it was limited to Information and Technology firms and did not examine traditional industries.

Shane and Venkataraman (2020) investigated the role of opportunity recognition in SME performance across multiple countries. Using a comparative study across the USA, China, and Brazil, they found that opportunity obsession was a key determinant of SME growth. The study highlighted that cultural and institutional factors significantly influenced the effectiveness of opportunity-driven strategies. However, it did not provide industry-specific insights, limiting its generalizability.

Njoroge and Karanja (2021) examined the relationship between opportunity obsession and SME growth in East Africa. Using a survey of 250 SMEs in Kenya, Uganda, and Tanzania, the study found that opportunity-driven entrepreneurs achieved higher growth rates. However, the study did not consider macroeconomic factors affecting opportunity identification.

Mensah and Boateng (2020) conducted research in West Africa, analyzing opportunity obsession and financial performance among 200 SMEs in Nigeria and Ghana. They found a significant correlation between opportunity recognition and revenue growth. However, the study did not investigate government's role or support in enhancing opportunity-driven entrepreneurship.

Bekele and Worku (2019) explored opportunity obsession in Ethiopian SMEs, using a mixed-method approach with 180 entrepreneurs. They found that SMEs that actively sought opportunities experienced higher sustainability rates. However, the study lacked a longitudinal perspective to track long-term outcomes.

Mugisha and Tumwesigye (2021) studied opportunity obsession and business performance in Rwanda. Using a qualitative approach, they found that risk-taking and opportunity obsession positively influenced SME success. However, the study was limited by its small sample size of 60 SMEs.

Chilufya et al. (2022) investigated SMEs in Zambia, focusing on opportunity obsession and competitiveness. They found that SMEs that adapted to emerging market trends achieved better performance. However, the study did not explore sectoral differences in opportunity recognition.

Makori et al. (2021) studied the impact of opportunity obsession on manufacturing SMEs in South Africa. Using structural equation modeling, they found that opportunity recognition significantly influenced innovation and competitiveness. However, the study was limited to the manufacturing sector.

Mwangi and Otieno (2021) studied the impact of opportunity obsession on SME performance in Nairobi. Using a survey of 150 SMEs, they found a positive correlation between opportunity-driven entrepreneurship and business growth. However, the study did not explore external challenges such as regulatory constraints.

Kamau et al. (2022) investigated opportunity obsession among SMEs in Mombasa. Using a case study approach, they found that opportunity recognition led to market expansion and profitability. However, the study lacked quantitative analysis to validate findings.

Wanjiru and Ndungu (2020) analyzed opportunity obsession and innovation in SMEs in Kisumu. Using a sample of 120 SMEs, they found that opportunity-driven SMEs were more innovative. However, the study did not examine the role of financial resources in exploiting opportunities.

Kitigin (2021) examined the role of opportunity obsession in SMEs in Eldoret Municipality. Using an ex-post facto research design, the study found that SMEs employing market expansion strategies performed better. However, the study did not consider digital entrepreneurship opportunities.

Kiprotich et al. (2020) studied opportunity obsession in Nakuru County. Using an explanatory research approach with a sample of 214 SMEs, they found that opportunity-driven businesses had moderate success. However, the study did not examine technology adoption. Ndungu (2022) investigated SMEs in Kiambu County, finding that entrepreneurs who actively sought opportunities had higher revenue growth. However, the study did not analyze the impact of economic fluctuations on opportunity recognition.

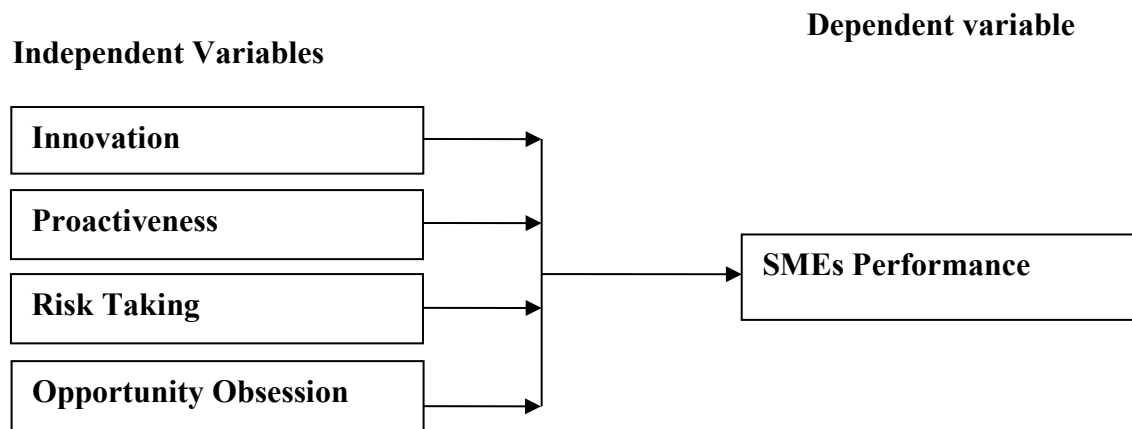
2.4. Conceptual Framework

The conceptual framework for Environmental Context (E.C.) is depicted in the graph below. This is a visual representation of the study variables and how the independent and dependent variables are related. The Entrepreneurial orientation components were the

independent variables, whereas SMEs' business success was the dependent variable. The conceptual framework proposes that there is a link between business performance and financial results.

Figure 2.2

Conceptual Framework



Source: Author (2025)

Innovation and SME Performance

Innovation plays a crucial role in the growth and competitiveness of small and medium enterprises (SMEs). Product innovation, which involves developing new or improved products, enables businesses to attract more customers and increase revenue (Schumpeter, 1934). Process innovation focuses on improving production or operational efficiency, reducing costs, and enhancing productivity, which contributes to overall business performance (Tidd & Bessant, 2018). Market innovation involves the adoption of new marketing strategies and distribution channels, allowing SMEs to reach a broader customer base and strengthen their market presence (Kotler & Keller, 2016). Technological

innovation, such as the use of advanced digital tools and automation, enhances business operations, improves service delivery, and increases competitiveness (Christensen, 1997). In Nairobi County, SMEs that embrace innovation are more likely to experience higher profitability and long-term sustainability due to their ability to adapt to changing market conditions. The integration of innovative practices also enables businesses to differentiate themselves from competitors, fostering customer loyalty and business growth. Consequently, innovation is essential for SMEs aiming to improve performance and remain relevant in an evolving business environment.

Proactive Measures and SME Performance

Proactive business strategies contribute significantly to the success of SMEs by enabling them to anticipate market changes and adapt effectively. Market anticipation, which involves identifying future customer needs and market trends, allows businesses to develop products and services that align with consumer preferences, thus maintaining relevance and demand (Kotler & Keller, 2016). Competitive positioning helps SMEs establish a unique value proposition that differentiates them from competitors, leading to increased market share and profitability (Porter, 1985). Engaging customers through personalized services and consistent communication fosters loyalty and repeat business, which enhances overall performance (Grönroos, 2000). Strategic planning plays a critical role in ensuring long-term business success, as it helps SMEs set clear objectives, allocate resources efficiently, and mitigate potential risks (Mintzberg, 1994). In Nairobi County, SMEs that adopt proactive measures are better positioned to respond to industry changes, leverage growth opportunities, and enhance their overall performance.

Risk-Taking Tendencies and SME Performance

Risk-taking is a fundamental characteristic of entrepreneurship that influences the growth and performance of SMEs. Financial risk-taking involves investing in uncertain ventures that have the potential for high returns, which can lead to business expansion and increased profitability (Knight, 1921). Market risk-taking, such as entering new or untested markets, allows SMEs to diversify their customer base and reduce dependency on a single revenue stream (Lumpkin & Dess, 1996). Operational risk-taking, including the adoption of innovative but uncertain business practices, enhances efficiency and productivity, although it requires careful evaluation to avoid potential failures (Tidd & Bessant, 2018). Strategic risk-taking, where businesses implement bold decisions such as mergers, acquisitions, or diversification, can significantly impact SME performance by opening up new growth opportunities (Miller & Friesen, 1982). In Nairobi County, SMEs that embrace calculated risk-taking are more likely to experience long-term success and resilience in a competitive environment. However, excessive risk-taking without proper assessment may lead to financial losses and operational challenges, making it crucial for businesses to balance innovation with risk management.

Opportunity Obsession and SME Performance

Opportunity obsession is a critical factor that drives SME growth and sustainability. Recognizing and capitalizing on emerging business opportunities enables firms to stay competitive and expand their market reach (Shane & Venkataraman, 2000). Effective resource mobilization, which involves acquiring financial, human, and technological

resources, ensures that businesses can seize identified opportunities and implement growth strategies successfully (Barney, 1991). Business adaptability, or the ability to adjust operations in response to new opportunities, allows SMEs to remain flexible and responsive to market changes, enhancing their overall performance (Teece et al., 1997). A strong growth orientation mindset fosters continuous business expansion, encouraging SMEs to explore new markets, innovate, and scale their operations (Davidsson, 1989). In Nairobi County, SMEs that demonstrate opportunity obsession tend to experience sustained success, as they proactively seek ways to improve their competitive advantage.

Performance of Small and Medium Enterprises in Nairobi County

The performance of SMEs in Nairobi County is influenced by financial, market, operational, and sustainability factors. Financial performance is assessed through indicators such as profitability, revenue growth, return on investment (ROI), and cost efficiency, which determine a business's financial stability and growth potential (Kaplan & Norton, 1992). Market performance is measured by factors like market share, customer acquisition, brand recognition, and competitive positioning, all of which contribute to business expansion and visibility (Porter, 1985). Operational efficiency, including productivity levels, process optimization, resource utilization, and supply chain effectiveness, plays a crucial role in ensuring smooth business operations and cost reduction (Teece et al., 1997). Business sustainability, which involves the ability to maintain long-term operations while adapting to environmental, social, and economic challenges, is essential for SMEs to thrive in competitive markets (Elkington, 1997). In Nairobi County, SMEs that focus on these key performance indicators are more likely to

achieve growth, resilience, and competitive advantage. Continuous improvement in these areas enhances business stability, enabling SMEs to withstand market fluctuations and maintain long-term success.

2.5 Operational Framework

The operational framework describes how the variables in this study were measured and analyzed. The independent variable in this study is Entrepreneurial Orientation (EO), which is assessed using four key dimensions: innovativeness, proactiveness, risk-taking propensity, and opportunity obsession. The dependent variable is SME's performance, which is measured using profitability, customer base, market share, employee satisfaction, and business growth.

The table below presents the operationalization of the study variables:

Table 2. 1

Operational Framework

Objective	Variable Type	Variable	Indicators	Measurement Scale	Data Analysis Techniques
To assess the relationship between innovativeness and performance of SMEs	Independent	Innovativeness	- New strategies and products- Adoption of new technologies	Likert (1-5)	Descriptive statistics, Regression
To examine the relationship between proactiveness and SME performance	Independent	Proactiveness	- Forecasting future demands- Influencing market environment- Introduction of new products	Likert (1-5)	Descriptive statistics, Regression

To evaluate the relationship between risk-taking and SME performance	Independent	Risk-taking propensity	- Market expansion- Venturing into new markets- Borrowing behavior	Likert (1–5)	scale	Descriptive statistics, Regression
To explore the effect of opportunity obsession on SME performance	Independent	Opportunity obsession	- Value creation and development- Customer understanding- Market trend analysis	Likert (1–5)	scale	Descriptive statistics, Regression
To determine SME performance based on entrepreneurial orientation	Dependent	SME Performance	- Profitability- Market share- Revenue growth- Customer satisfaction- Employee satisfaction	Ratio Ordinal	& scale	Descriptive statistics, Regression

Source: Researcher (2024)

2.6 Summary of the Literature Review

The desire to test new technologies and the genuine commitment to innovation reflect two ends of the innovation spectrum. An innovative approach is basically speculative since the returns are not known in advance, meaning innovators risk wasting resources if their investment does not generate the expected outcomes. Innovations with a good chance of succeeding are also at risk of being copied. Two sorts of autonomy are alluded to when discussing entrepreneurship in the context of strategy development. The transformation of a vision into reality is facilitated by the exercise of individual leadership within the context of initial autonomy.

In contrast, in the second type of autonomy, lower-level entrepreneurial activity and decision-making are enabled by individual autonomy at lower levels of an organization. The idea of Entrepreneurial Orientation is congruent with these kinds of autonomy. An Entrepreneurial Orientation may depend on a person's proactiveness, which shows a forward-looking outlook coupled with inventive and entrepreneurial behaviour. The term "proactiveness" refers to a person's ability to anticipate and take advantage of new chances. In the business context, risk-taking denotes the willingness of a company to explore possibilities despite the lack of assurance that it will succeed. Although some may see risk-taking as a company's management intentionally dedicating resources to initiatives with the expectation of great returns, it may also include an increased risk of failure. Acting without regard for the repercussions is part of it.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The present section delineates the research methodologies employed by the author to address the research inquiries. This chapter encompassed a comprehensive analysis of various aspects, ranging from research design, target population and sampling technique, as well as the data collection methods to be engaged. The text additionally examines the data evaluation process in generating essential information for the research at hand.

3.2 Research Design

Kothari (2020) posits that study design involves establishing the requisite circumstances for collecting and assessing empirical data to achieve a harmonious equilibrium between the research objectives and procedural efficiency. The present study employed a descriptive research methodology. The fundamental objective of the descriptive research approach is to ascertain the particulars concerning the nature, location, and methods of a phenomenon being investigated (Mugenda & Mugenda, 2018). Considering the research objective of examining the influence of entrepreneurial orientation on the performance of small and medium-sized enterprises in Nairobi County, the selected methodology is deemed appropriate. The researcher used a descriptive research design due to its ability to facilitate the generalization of the results to a broader population. This approach facilitated the acquisition of numerical information, which subsequently underwent statistical examination by applying descriptive and inferential analytics. The present study

underscores the fundamental components that have substantially contributed to the growth and advancement of small and medium-sized enterprises (SMEs) in the urban centre of Nairobi.

3.3 Target Population

A population refers to a collection of observable entities that possess similar characteristics, allowing for the derivation of meaningful inferences (Cooper & Schindler, 2018). A complete collection of people, things, events, or anything that has a similar quality may also be referred to as the "population" (Mugenda & Mugenda, 2018). A researcher studies a subset of the population and then derives conclusions that may be applied to the whole population. The research focuses on the entire population of registered SMEs in Nairobi County, totaling to 312,981 businesses. These SMEs stay classified into seven distinct categories. The following tables provide a comprehensive list of all the SMEs within Nairobi County.

Table 3. 1:

SMEs in Nairobi County

Sector	Population	Percentage (%)
Industrial plants, factories, and workshops	20,945	6.69%
General trade, wholesale, and retail	199,600	63.77%
Transport, storage, and communication	13,685	4.37%
Agriculture, forestry, and natural resources	946	0.30%
Accommodation and catering	21,681	6.92%
Professional and technical services	49,125	15.70%
Private education, health, and entertainment	6,999	2.24%
Total	312,981	100%

Source: Nairobi City Council Office (2022)

3.4 Sample Technique and Sample Size

3.4.1 Sampling Techniques

Sampling refers to the process of selecting a representative subset from a larger population to make inferences about the whole (Organisation for Economic Co-operation and Development [OECD], 2020). This study employed stratified proportionate sampling to ensure that all categories of SMEs were adequately represented. According to Kothari (2019), stratified sampling improves representativeness by dividing the population into homogeneous subgroups (strata) before drawing a sample. Each SME sector listed in Table 3.1 was treated as a distinct stratum, ensuring proportional representation in the final sample. Using Kothari and Garg's (2014) sampling approach, businesses were selected from each stratum based on their percentage of the total SME population. This method minimizes bias and ensures a diverse representation of SMEs across different industries in Nairobi County. Stratified random sampling was employed to determine the sample size for each subgroup within a larger population, particularly when different sub-populations have distinct characteristics. This approach ensures an unbiased sample size selection. Stratified sampling involves categorizing the population into different strata and then selecting samples randomly or systematically from each stratum. In contrast to simple random sampling, where every individual in the population has an equal chance of being chosen, stratified sampling focuses on specific categories within the population (Mugenda & Mugenda, 2018). For this study, SMEs were divided into seven distinct categories based on their business sector. The stratified random sampling technique was then applied to calculate the sample size for each stratum among the 400 SMEs.

3.4.2 Sample size

A sample size is a smaller group chosen from a larger population (Cooper & Schindler, 2018). This study targets small and medium-sized enterprises (SMEs) licensed to operate within the central business district of Nairobi City County. A total of 400 SMEs were selected for inclusion. The managers and owners of these SMEs were chosen as respondents because of their direct responsibility for business performance and their understanding of the research topic. Slovin's formula was utilized to determine the appropriate sample size, as it enables researchers to select a sample that is both accurate and representative of the broader population.

$$\frac{N}{(1 + Ne^2)} = n$$

n represent the samples, N in the ensire population, and e is the tolerance error.

A confidence level of 95% was employed, alongside a significance level of 0.05. The study encompasses a population of 312,981 individuals.

$$n = \frac{N}{(1 + Ne^2)}$$

$$n = \frac{312,981}{1 + (312.981 * 0.05^2)}$$

$$n = \frac{312,981}{783.4525}$$

$$n = 399.49 \approx 400$$

n = 400 (Research sample size in Nairobi County)

Industrial plants, factories and workshops=20,945/312,981 x 400=26.7. The table below shows the sample size derived from every stratum.

Table 3. 2:

List of SMEs in Nairobi County and Corresponding Sample from Stratified Sampling

Sector	Population	Sample Size
Industrial plants, factories and workshops	20,945	27
General trade, wholesale and retail	199,600	255
Transport, storage and communication	13,685	17
Agriculture, forestry and natural resources	946	1
Accommodation and catering	21,681	28
Professional and technical services	49,125	63
Private education, health and entertainment	6,999	9
TOTAL	312,981	400

Source: Nairobi City County Offices (2021)

3.5 Data Collection Instruments

Participants were asked to complete questionnaires to gather primary data. Questionnaires, which consist of pre-formulated questions and answer options for respondents to fill out, are highly effective for quickly collecting information from a large group (Sekaran, 2018). Kothari (2019) emphasizes that questionnaires are particularly useful for gathering substantial amounts of data efficiently. The anonymity provided by questionnaires helps ensure data reliability and consistency (Kashyap& Singh, 2017). Given these advantages, the questionnaire was selected as the preferred method for this study. The questionnaire was crafted to be easy to use, incorporating a mix of open-ended and closed-ended questions. It was structured into two parts: the first part gathered biographical details from the respondents, while the second part was dedicated to collecting data pertinent to the study's variables.

3.6 Data Collection Technique

At first, the researcher applied for the letter of approval that would be used to persuade the correspondents and survey participants of the authenticity of the field survey. The pilot study confirmed the validity and applicability of the questions. Structured questionnaires were employed to gather the data for the investigation. The research questions guided the creation of the questionnaires. Because it is less expensive and quicker to deliver structured questions, a larger number of respondents participated in the study. Four hundred questionnaires were sent to the owners and managers of SME enterprises registered with the Nairobi County government. All respondents were given a questionnaire to fill out during their interview. In order to finish the questionnaire in about 30 minutes, those willing to do so immediately were required to do it in that amount of time. Respondents also chose to complete the surveys at their own convenience. A more representative sample was obtained via hand-delivering questionnaires to company owners and managers since everyone in the sample had a fair shot of receiving one. Using phone calls and text messages, the researcher followed up with the respondents to ensure that they completed them in time for data analysis.

3.7 Validity and Reliability

3.7.2 Validity

Validity is a crucial aspect of research as it ensures that the research instrument accurately measures what it is intended to measure. In this study, a pre-test of the questionnaire was conducted to evaluate its validity by identifying and addressing any ambiguous or unclear questions before the final distribution to respondents. The validity of the research

instrument was assessed using two primary approaches: face validity and content validity. Face validity refers to the extent to which the questionnaire appears to measure the intended variables at a superficial level. To establish this, the questionnaire was reviewed by supervisors, faculty members, and field experts who provided critical feedback on the clarity, relevance, and appropriateness of the questions. Their input ensured that the instrument was structured in a way that effectively captured the research objectives. Content validity, on the other hand, was used to determine whether the questionnaire comprehensively covered all aspects of the study variables. The questionnaire items were examined to ensure they represented the full spectrum of the research topic, preventing any critical dimensions from being overlooked. This approach aligns with Gillham (2021), who emphasizes that test items should encompass a wide range of knowledge and skills. Through expert validation, necessary refinements were made to the instrument to enhance its accuracy and applicability.

3.7.3 Reliability

Reliability in research refers to the consistency and dependability of a research instrument in yielding the same results when applied under similar conditions. A reliable instrument ensures that findings are not only accurate but also reproducible over time. In this study, reliability was tested using Cronbach's Alpha Coefficient, a statistical measure that assesses the internal consistency of the questionnaire items. To establish reliability, a pilot study was conducted with 10% of the sample size in a controlled setting before the main study. The pilot test helped determine whether the research tool produced stable responses when administered to different respondents within the same population.

Cronbach's Alpha was computed to measure the internal consistency of the items, with a threshold value of 0.7 or higher considered acceptable. A high Cronbach's Alpha value indicated that the questionnaire items were well-correlated and measured the same underlying concept, thereby confirming reliability. In cases where some items exhibited low reliability scores, adjustments were made by refining the wording or eliminating redundant questions to enhance the instrument's overall dependability. The application of this reliability test ensured that the questionnaire effectively captured the intended data, minimizing measurement errors. According to Bell and Holroyd (2020), reliability is essential for ensuring that research findings remain consistent and can be replicated in future studies.

3.8 Data Analysis and Presentation

After the field survey was completed, the questionnaires were carefully organized and prepared for data analysis. The data from respondents was thoroughly reviewed and validated to ensure accuracy and completeness before analysis. Frequency tables and multiple regression analysis were employed to examine the data, with descriptive information presented in tabular format. SPSS version 24 was used for the data analysis, as it is a powerful tool for analyzing and interpreting quantitative data. The research utilized binary regression analysis for inferential purposes to assess the strength of the relationships between variables. The study focuses on examining how factors like innovativeness, proactiveness, risk-taking, and opportunity obsession affect the performance of SMEs in Nairobi County.

$$p(Y = 1) = \frac{1}{(1 + e^{-(\beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4)})}$$

Where:

$p(Y=1)$ = Performance of Small and Medium Enterprises_s

β_0 = Constant Term;

$\beta_1, \beta_2, \beta_3$ and β_4 = Beta coefficients;

X_1 = Innovativeness;

X_2 = Pro-activeness;

X_3 = Risk-taking;

X_4 = opportunity obsession

3.9 Ethical Issues

The researcher has a profound responsibility to manage the material with the highest degree of diligence. The researcher assured the respondents that their information would be handled with the highest level of confidentiality, aiming to alleviate any concerns they might have about providing the necessary data for the study. The transmittal letter issued by National Commission For Science ,Technology &Innovation(NACOSTI) indicates that the information obtained was utilized solely for scholarly purposes.

3.10 Operational Definitions of Variables and Measuring Indicators

Table 3.3:

Operational definitions of variables and measuring Indicators

Objectives	Variable	Indicators	Tools of Analysis	Type of Data Analysis
To examine the Relationship of Entrepreneur's Innovativeness of SMEs in Nairobi County	Innovativeness	New strategies and products New technologies	Percentage Mean	Descriptive Regression
To determine if there are any correlations between an entrepreneur's proactiveness and the performance of SMEs in Nairobi County	Proactiveness	Forecasting future demand Influencing market environment Introducing new	Percentage Mean	Descriptive Regression
To assess the relationship between an entrepreneur's risk-taking propensity and the success of SMEs in Nairobi County	Risk-taking	Stimulating new demand. Venturing into new markets. Internal and external borrowing	Percentage Mean	Descriptive Regression
To explore the relationship between an entrepreneur's opportunity obsession and the performance of SMEs in Nairobi County	Opportunity obsession	Value creation and development. Understanding customers' demands. Understanding what drives the market.	Percentage Mean	Descriptive Regression
	Dependent variable: Performance of SMEs in Nairobi County	Profitability Number of customers Market share Size of SME Employee satisfaction Customer	Percentage Mean	Descriptive Regression

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction

This section outlines, analyzes, and contextualizes the study's findings within the framework of existing literature. It includes detailed sections covering response rates, reliability results, frequency distributions, descriptive statistics, and inferential statistics. Additionally, it explores the relationships between variables. The presentation of results is structured around the study's objectives.

4.2 Rate of Response

Out of the 400 questionnaires distributed to respondents, 340 were returned. This resulted in a return rate of 85%, while the remaining 15% were not returned due to various reasons, for instance, being partially completed, not submitted, or lacking content. Here is the table displaying the response rate:

Table 4.1:

<i>Response Rate</i>	Frequency	Percentage
Return	340	85%
Non-return	60	15%

According to Wimmer and Dominick (2012), a return rate ranging from 21% to 70% is deemed adequate, precise, and satisfactory for self-administered questionnaires. Therefore, in this study, an 85% rate of return is deemed acceptable.

4.3 Reliability Analysis

Ensuring the dependability of data collection instruments holds significant importance in research endeavours. It involves assessing the consistency of results or data obtained from repeated trials (Mugenda & Mugenda, 2018). Random errors can have an impact on the reliability of research. Errors can occur due to various factors, such as coding inaccuracies, unclear instructions or questions, fatigue of both the interviewer and interviewee, and potential biases of the interviewer (Zikmund, 2010).

Table 4.2:

Reliability of Research Instruments

Variables	Cronbach's Alpha	Total items
Innovativeness	0.700	6
Proactiveness	0.802	6
Risk-taking propensity	0.753	6
Opportunity obsession	0.746	6

The results showed that innovativeness had a Cronbach's Alpha coefficient of 0.700, proactiveness was recorded at 0.802, and risk-taking propensity was measured at 0.753. According to Griethuijsen and Trimmer (2014), a Cronbach's Alpha value of 0.7 or above is considered acceptable, while Kothari (2010) states that a threshold of 0.70 or higher is satisfactory. Since all constructs had Cronbach's Alpha values above the recommended minimum of 0.60, the reliability of the study instruments is confirmed.

4.4 Demographic Information

This section provides insights into the gender and e-status characteristics of the study sample. Demographic characteristics play a crucial role as they reflect respondents' study behaviour, which helps determine their suitability for the study being conducted.

4.4.1 Gender of the Respondent

An individual's gender can influence their behavior and attitudes toward a particular phenomenon, which can subsequently affect their values and perceptions related to the study. Table 6 below shows the gender distribution of this research study.

Table 4.3:

Gender of the Respondent

Gender	Frequency	Percentage
Male	232	68.2%
Female	108	31.8%

The findings revealed that 68.2% of the respondents were male, while 31.8% were female. This aligns with the study by Minniti and Naudé (2010), which highlights that male entrepreneurs tend to dominate the SME sector due to socio-cultural and economic factors that influence business ownership. The statistical disparity indicates potential gender gaps in access to entrepreneurial resources, networking opportunities, and capital investment, impacting SME performance in Nairobi County.

4.4.2 Age of Business

This section of the study aimed to determine the duration of business operations, specifically the number of years each business has been running. The results are presented in Table 7 below.

Table 4. 4:*Age of the Business*

Age of the Business	Frequency	Percentage
1-10 Years	15	4.4%
11-20 Years	194	57.1%
21-30 Years	125	36.8%
Over 30 Years	6	1.8%
Total	340	100.0

The findings indicate that 57.1% of SMEs have operated for 11-20 years, while 36.8% have been in existence for 21-30 years. Only 4.4% were between 1-10 years, and 1.8% had over 30 years of operation. These results suggest that most SMEs have acquired substantial industry experience, enhancing resilience and adaptability. According to Lumpkin and Dess (2001), business experience contributes to strategic decision-making, risk management, and innovation, which are essential components of entrepreneurial orientation and SME performance.

4.4.3 Educational Level of the Respondents

Determining the education level of respondents was necessary as it was likely to affect their level of understanding and business operations. The Results are displayed in Table 8 below.

Table 4. 5:*Educational Level of the Respondent*

Education Level	Frequency	Percentage
Diploma	34	10%
Undergraduate	215	63.2%
Masters	88	25.9%
Doctorate	3	0.9%
Total	340	100

The study revealed that 63.2% of respondents had undergraduate degrees, followed by 25.9% with master's degrees, 10% with diplomas, and 0.9% with doctorates. Rentor et al.

(2017) affirm that education enhances managerial capabilities, financial literacy, and innovative thinking, ultimately influencing SME performance. The statistical distribution suggests that higher education levels equip entrepreneurs and managers with skills necessary for operational efficiency, business expansion, and financial management.

4.4.4 Position of Respondents

Positions of the respondents in the SME's businesses were established. Different positions that were held by the respondents in their businesses are displayed below in Table 9.

Table 4. 6:

Position of the Respondents

Positions of the Respondents	Frequency	Percentage
Owners	122	35.9%
Business Managers	218	64.1%
Total	340	100

The study found that 64.1% of respondents were business managers, while 35.9% were business owners. Leadership roles in SMEs are crucial as they directly influence decision-making, strategic planning, and performance. Moore and Buttner (2019) assert that effective leadership and managerial expertise are pivotal for business sustainability. The statistical distribution implies that managers play a dominant role in SME operations, emphasizing the need for entrepreneurial skills and leadership training to enhance business growth and competitiveness.

4.4.5 Firm Size

Firm size serves as a fundamental dimension within the landscape of economics and business studies, offering critical insights into organizational behaviour, market dynamics and economic performance. Table 10 shows the distribution/classification of firm size.

Table 4.7:

Firm Size

Firm size	Frequency	Percentage
Medium (5 employees)	74	21.8%
Small (50 employees)	176	51.8%
Large (over 50 employees)	90	26.5%
Total	340	100

The study classified SMEs based on the number of employees, revealing that 51.8% were small-sized, 21.8% were medium-sized, and 26.5% were large firms. The results align with Kenya's SME classification criteria. According to Storey (2016), firm size affects access to financial resources, economies of scale, and market expansion strategies. The findings suggest that small-sized SMEs dominate Nairobi County, requiring policy support to enhance financial access and scalability.

4.4.6 Business Type

Businesses are classified based on their legal structure, industry, ownership, size and operational traits. Table 11 displays these findings.

Table 4.8:

Types of Business

Business type	Frequency	Percentage
Sole proprietorship	91	26.8%
Partnership	176	51.8%
Limited Liability	73	21.5%
Total	340	100%

The study found that 51.8% of SMEs were partnerships, 26.8% were sole proprietorships, and 21.5% were limited liability companies. Business type determines regulatory compliance and risk exposure. Sharma and Carney (2012) argue that partnerships facilitate knowledge-sharing and pooled resources, enhancing SME performance. The statistical dominance of partnerships suggests collaborative entrepreneurship as a preferred model in Nairobi County.

4.4.7 Does your SME introduce new products?

The study sought to establish if SMEs introduced new products in the market. Table 12 shows the findings.

Table 4.9:

SME And New Product

New Products Introduction	Frequency	Percentage
YES	117	34.4%
NO	223	65.6%
Total	340	100

The study found that 34.4% of SMEs introduced new products, while 65.6% did not. Schumpeter (1934) emphasized that innovation drives business competitiveness and market relevance. The statistical findings indicate a gap in product innovation among SMEs, necessitating strategies to enhance research and development capabilities.

4.4.8 Does your SME invest in research and development to improve existing products or services?

Respondents were asked if their businesses invested in research and development to improve existing products/services. Research findings were as follows.

Table 4.10:

SME Research and Development findings

Research and Development Investment	Frequency	Percentage
YES	106	31.2%
NO	234	68.8%
Total	340	100

The study showed that 31.2% of SMEs invested in R&D, while 68.8% did not. Cohen and Levinthal (1990) argue that R&D investment fosters innovation, productivity, and market differentiation. The statistical data suggest a low R&D investment culture among SMEs, highlighting the need for policy incentives to promote innovation.

4.4.9 Does your SME have a formal process in place for idea generation and evaluation?

The researcher sought to establish if there was a formal process in place for the ideal generation. Research findings are as indicated in Table 14.

Table 4.11:

SME Idea Generation

Idea Generation	Frequency	Percentage
YES	126	37.1%
NO	214	62.9%
Total	340	100

The study found that 37.1% of SMEs had formal idea generation mechanisms, while 62.9% lacked such processes. Drucker (1985) emphasized that systematic innovation enhances business adaptability and market success. The statistical findings highlight the need for structured innovation frameworks in Nairobi's SMEs.

4.4.10 Does your SME benchmark against competitors and other industry leaders to identify best practices?

Benchmarking enables SMEs to adopt best practices and enhance competitiveness. The results are shown in Table 15.

Table 4. 12:

SME Benchmarking against the competition

Benchmarking against competition	Frequency	Percentage
YES	107	31.5%
NO	214	68.5%
Total	340	100

The study revealed that 31.5% of SMEs engaged in benchmarking, while 68.5% did not. Porter (1985) asserts that competitive analysis fosters strategic positioning and operational efficiency. The statistical findings suggest that a majority of SMEs do not leverage benchmarking, which could limit their competitive advantage and market growth potential.

4.5 Frequency Analysis of Study Variable

In this section, the results of the frequency analysis of the study variables and the findings are discussed.

4.5.1 Frequency Analysis of innovativeness Variable

The study examined innovativeness' impact on SME performance based on respondents' agreement levels (Table 16).

Table 4. 13:

Summary of Frequency Analysis of Innovativeness Constructs

Innovativeness	Disagree	Neutral	Agree	Total
Our Company encourages and supports new and creative ideas	4.4%	31.2%	54.4%	100
Our Company encourages innovation in its undertakings	3.0%	11.8%	85.3%	100
Our Company embraces new technology	0%	4.4%	95.6%	100
We encourage employees to have original and distinct thinking	0.9%	5.9%	93.2%	100
We welcome all new forms of thinking	48.5%	19.4%	32.1%	100
The Company is slow in adopting new products and service lines	43.8%	20.3%	35.9%	100

A summary of frequency analysis showed that a few respondents, 4.4%, disagreed that their Company encourages and supports new and creative ideas, while the majority, 54.4%, answered in the affirmative. Responding to the statement that “Our Company encourages innovation in its undertakings”, only 3% of the respondents disagreed with it, while 85.3% overwhelmingly agreed with the statement. On whether “Our Company embraces new technology”, no respondent disagreed, 4.4% remained neutral, and the majority of the

respondents who accounted for 95.6% agreed. Minority, i.e., 0.9% of the respondents disagreed with the statement that “We encourage employees to have original and distinct thinking”, while 93.2% agreed. Responding to “We welcome all new forms of thinking”, 48.5% of the respondents disagreed, while 32.1 agreed. Similarly, when requested to answer the statement that “The Company is slow in adopting new products and service lines”, 43.8% disagreed, and 35.9% answered in the affirmative.

4.5.2 Frequency Analysis of proactive Variable

The study assessed proactiveness' impact on SME performance based on respondents' agreement levels (Table 17).

Table 4. 14:

Summary of Frequency Analysis of Proactiveness Constructs

Innovativeness	Disagree	Neutral	Agree	Total
Our staff lead in finding and recognizing the customer's needs	13.5%	13.8%	72.6%	100%
Our Company takes an aggressive posture compared to the competition	46.4%	42.4%	11.2%	100%
We have a strategic plan for growth and expansion	6.8%	21.2%	72%	100%
Our Company is always informed on new emerging trends	6.2%	30.6%	53.2%	100%
Our Company is driven forward by its goals, beliefs and values	13.5%	13.8	72.6%	100%
The Company is always ahead of its competitors	21.3%	42.4%	37.4%	100%

The summary of frequency analysis showed that a few respondents, 13.5%, disagreed that “Our staff lead in finding and recognizing the customer needs”, while the majority, 72.6%, answered in the affirmative. Responding to the statement that “Our Company takes

aggressive posture compared to competition”, 46.4% of the respondents disagreed with it while 11.2% agreed to the statement. On whether “We have a strategic plan for growth and expansion”, 6.8% of the respondents disagreed, 21.2% remained neutral, and the majority of the respondents who accounted for 72% agreed. Minority, i.e., 6.2% of the respondents disagreed with the statement that “Our Company is always informed on new emerging trends,” while 53.2% agreed. Responding to “Our Company is driven forward by its goals, beliefs and values”, 13.5% of the respondents disagreed, while 72.6 agreed. Similarly, when requested to answer the statement that “The Company is always ahead of its competitors”, 21.3% disagreed, and 37.4% answered in the affirmative.

4.5.3 Frequency Analysis of Variable Taking Risk propensity.

The study sought to establish the influence of innovativeness on SME performance by requesting the respondents to indicate the extent to which they agree with the statements.

The findings are displayed in Table 18.

Table 4. 15:

<i>Summary of Frequency Analysis of Taking Risk propensity's Constructs</i>				
Taking risk propensity	Disagree	Neutral	Agree	Total
We always adopt new technology trends	0%	19.7%	80.3%	100%
Our Company encourages employees to take risks without fear of the outcome	4.4%%	26.5%	69.1%	100%
Our Company is risk averse on costly projects	1.8%	21.8%	76.5%	100%
As a company, we are aggressive and make firm decisions for the firm's progress	17.1%	29.1%	53.8%	100%
This Company has daring employees	0%	23.8%	81.1%	100%
We Endeavour to take calculated risks in our operations	0%	8.2%	81.7%	100%

A summary of frequency analysis showed that a few respondents, 0% disagreed that “We always adopt new technology trends”, while the majority, 80.3%, answered in the affirmative. Responding to the statement “Our Company encourages employees to take risks without fear of the outcome”, only 4.4% of the respondents disagreed with it while 69.1% overwhelmingly agreed to the statement. On whether “Our Company is risk averse on costly projects”, 1.8% of respondents disagreed, 21.8% remained neutral, and the majority of the respondents who accounted for 76.5% agreed. Minority, i.e., 17.1% of the respondents disagreed with the statement that “As a company, we are aggressive and make firm decisions for the firm's progress”, while 53.1% agreed. Responding to “This Company has daring employees”, 0% of the respondents disagreed, while 81.1% agreed. Similarly, when requested to answer the statement, “We Endeavour to take calculated risks in our operations”, 0% disagreed, and 81.7% answered in the affirmative.

4.5.4 Does your SME invest in research and development to create new products or services?

The researcher was keen to find out if the SMEs invested in research and development in their innovation journey. Table 19 shows the research findings.

Table 4. 16:

<i>New Markets</i>		
New markets	Frequency	Percentage
Yes	104	30.6%
No	236	69.4%
Total	340	100.0

The study findings indicate that 30.6% of SMEs invest in research and development (R&D) to create new products or services, while 69.4% do not. This suggests that a majority of

SMEs may lack the financial resources, expertise, or strategic orientation to prioritize R&D. Schumpeter (1934) asserts that R&D is a key driver of innovation, enhancing competitiveness and long-term business growth. SMEs investing in R&D are more likely to develop differentiated products, improve market positioning, and sustain profitability. The low adoption rate implies that many SMEs might be constrained by high costs and uncertainty associated with innovation investments.

4.5.5 Does your SME invest in new markets or industries that are not yet established?

The research sought to find out if the businesses invested in new markets. A summary of these findings is conveyed in table 20.

Table 4. 17:

New Market Trends

New market trends	Frequency	Percentage
Yes	118	34.6%
No	222	65.4%
Total	340	100

The study reveals that 34.6% of SMEs invest in new markets or industries that are not yet established, while 65.4% do not. This suggests that most SMEs adopt a conservative market strategy, potentially limiting their growth and competitive advantage. According to Lumpkin and Dess (1996), market proactiveness is crucial for entrepreneurial success, as firms that seek new opportunities are better positioned for sustainable growth. SMEs that expand into new markets benefit from first-mover advantages and diversified revenue streams. However, the majority's reluctance to explore new markets may be attributed to perceived risks, lack of market intelligence, or financial constraints.

4.5.6 Does your SME have a formal process for identifying and evaluating new business opportunities that involve a high degree of risk?

Here, the researcher sought to find out if there was a process for identifying new business opportunities in the market. The findings are displayed in Table 21.

Table 4. 18:

New Business Opportunities

New opportunities	Frequency	Percentage
Yes	113	33.1%
No	227	66.9%
Total	340	100

The findings show that 33.1% of SMEs have a formal process for identifying and evaluating new business opportunities involving high risks, whereas 66.9% do not. This suggests that risk management strategies are underdeveloped among most SMEs, potentially affecting their ability to innovate. According to Knight (1921), risk-taking is a fundamental characteristic of entrepreneurial firms, allowing them to seize high-reward opportunities. SMEs with structured risk evaluation processes can mitigate uncertainties and make informed strategic decisions. The findings highlight the need for SMEs to adopt formal risk assessment frameworks to improve their market responsiveness and innovation potential.

4.6 Opportunity Obsession

4.6.1 Have you explored new markets in the past year?

Respondents were asked if their SME **had** explored new markets in the past year. The results are indicated below in Table 22.

Table 4. 19:

New Markets

New markets	Frequency	Percentage
Yes	105	30.9%
No	235	69.1%
Total	340	100

The study findings indicate that 30.9% of SMEs explored new markets in the past year, while 69.1% remained within their existing markets. This suggests that while some SMEs embrace growth-oriented strategies, a majority exhibit market inertia. According to Lumpkin and Dess (1996), opportunity obsession is a critical component of entrepreneurial orientation, enabling firms to enhance competitiveness and sustainability. Firms that actively pursue market expansion are more resilient to economic fluctuations and industry disruptions. However, the low participation in new market ventures suggests barriers such as limited financial resources, lack of market research, and risk aversion.

4.6.2 How often do you proactively seek out information about new market trends or customer needs?

The research sought to find if the respondents were proactively seeking market information on new markets or customer needs. The result, a summary of this query, is reported in Table 23.

Table 4. 20:

New Market Trends

Frequency	No of respondent	Percentage
Rarely	52	15.3%
Occasionally	129	37.9%
Frequently	120	35.3%
Always	39	11.5%
Total	Total	100

The study reveals that 15.3% of SMEs "rarely" seek market trends, 37.9% do so "occasionally," 35.3% "frequently," and 11.5% "always." This distribution suggests that while a significant proportion of SMEs recognize the importance of market intelligence, consistency in market research remains a challenge. Covin and Slevin (1989) argue that proactive market awareness is essential for identifying emerging opportunities and sustaining competitiveness. SMEs that consistently gather and analyze market data can better align their strategies with evolving customer preferences. However, the relatively low frequency of proactive market research suggests the need for improved information-gathering mechanisms among SMEs.

4.6.3 Have you identified new business opportunities in the past year?

The researcher wanted to find out if the business has identified new business opportunities this past year. The resulting findings are presented in Table 24.

Table 4. 21:

New Business Opportunities

New business opportunities	Frequency	Percentage
Yes	173	50.9%
No	167	49.1%
Total	340	100

As shown in Table 24, 50.9% of the respondents indicated they had identified new opportunities, while 49.1% had not. This near-even split suggests that while many SMEs remain proactive in exploring new avenues for growth, a significant portion struggles with opportunity identification. According to Shane and Venkataraman (2000), opportunity recognition is a fundamental aspect of entrepreneurship and directly impacts business performance. Similarly, Kuratko et al. (2011) highlight that firms that actively seek new opportunities tend to experience higher innovation levels and competitive advantage. The findings emphasize the need for Nairobi-based SMEs to adopt strategic market scanning, competitor analysis, and customer feedback mechanisms to enhance their ability to recognize and exploit emerging business opportunities effectively.

4.6.4 How often do you search for new business opportunities?

The researcher sought to find out if the respondents often searched for new business opportunities. The below table summarizes the findings.

Table 4. 22:

Frequency of Identifying New Business Opportunities

How often	No of respondent	Percentage
Rarely	34	10%
Occasionally	108	31.8%
Frequently	148	43.5%
Always	50	14.7%
Total	340	100

As presented in Table 25, 43.5% of respondents stated they “frequently” seek opportunities, 31.8% do so “occasionally,” while 14.7% reported “always” searching. However, 10% admitted to rarely engaging in such activities. This finding aligns with Lumpkin and Dess (1996), who argue that opportunity-seeking behavior is a key dimension of entrepreneurial orientation, directly influencing firm performance. Moreover, Wiklund and Shepherd (2005) highlight that SMEs with a proactive approach to opportunity identification are more adaptable to market changes, leading to competitive advantages and sustained growth. The results emphasize the importance of fostering an entrepreneurial culture within SMEs to ensure continuous market exploration and innovation.

4.7 SME Performance

4.7.1 What is your Company's market share?

To understand the SMEs' market shareholding in Nairobi County, respondents were requested to give insights on their market share. Table 26 shows the research findings.

Table 4. 23:

Market Share

Market share by %	No of respondent	Percentage
5%	83	24.4%
10%	210	61.8%
20%	22	6.4%
30%	11	3.2%
Above 30%	14	4.1%
Total	340	100

The results indicate that the majority (61.8%) of SMEs reported a market share of 10%, followed by 24.4% with a 5% market share. Only a small proportion of SMEs have significant market control, with 6.4% reporting a 20% market share, 3.2% with a 30% share, and 4.1% surpassing 30%. These findings suggest that most SMEs in Nairobi County operate in highly competitive markets, with limited dominance in their respective industries. According to Porter's Competitive Strategy (1985), businesses with a small market share often face challenges in achieving economies of scale, brand loyalty, and pricing power. However, Lumpkin and Dess (1996) argue that proactive market strategies, innovation, and strategic alliances can help SMEs increase their market presence over time.

4.7.2 Has your Company's revenue increased in the past year?

An increase in revenue shows the financial stability of a firm. The findings are revealed in Table 27.

Table 4. 24:

Increase in Company Revenue

Increase in Company Revenue	Frequency	Percentage
Yes	105	30.9%
No	235	69.1%
Total	340	100

The results, summarized in Table 27, reveal that only 30.9% of the SMEs reported an increase in revenue, while a significant 69.1% did not experience any revenue growth. These findings indicate a stagnation in SME growth within Nairobi County, which could be attributed to various economic challenges such as inflation, market competition, limited access to financing, and regulatory constraints. According to Schumpeter's Theory of Economic Development (1934), firms that fail to innovate and adapt to market dynamics struggle to achieve sustainable growth. Similarly, the Resource-Based View (RBV) suggests that SMEs need to leverage internal capabilities such as financial management, customer relationship strategies, and operational efficiency to improve performance.

4.7.3 What is your Company's annual revenue?

The respondents gave information about their company's annual revenue, as indicated in Table 28.

Table 4. 25:

<i>Company's Annual Revenue</i>		
	Frequency	Percentage
Up to KES 1 Million	37	10.9%
KES 1 - 5 Million	108	31.8%
KES 5 - 50 Million	140	41.2%
Over KES 50 Million	55	16.2%
Total	340	100

The results indicate that 10.9% of SMEs reported an annual revenue of up to KES 1 million, while 31.8% generated between KES 1 - 5 million. A significant 41.2% of SMEs reported an annual revenue between KES 5 - 50 million, while 16.2% recorded revenue exceeding KES 50 million. These findings suggest that the majority of SMEs in Nairobi County operate within the mid-range revenue bracket of KES 5 - 50 million, which is indicative of moderate business performance and stability. The presence of 16.2% of SMEs with revenues exceeding KES 50 million demonstrates that a portion of SMEs have managed to scale and establish strong financial footholds in their respective industries. The results align with the SME Growth Theory, which posits that revenue growth is influenced by factors such as market expansion, operational efficiency, access to capital, and competitive strategies.

4.7.4 Has your Company expanded into new markets in the past year?

Respondent were asked if their business expanded into a new market in 2022. The results are conveyed in Table 29.

Table 4. 26:

Company Expansion

New business opportunities	Frequency	Percentage
Yes	108	31.8%
No	232	68.2%
Total	340	100

The findings reveal that 31.8% of SMEs in Nairobi County expanded into new markets in the past year, while 68.2% did not. This aligns with Ansoff's Growth Theory, which suggests that firms often struggle with market penetration due to financial constraints, competition, and regulatory challenges (Ansoff, 1957). Similarly, Davidsson et al. (2009) found that SMEs' ability to expand is largely influenced by access to financial resources, strategic planning, and market demand. The low expansion rate signals challenges in market entry, necessitating government and financial institution interventions.

4.7.5 What is your current employee turnover?

The research sought to find employee turnover. Results findings are represented in Table 30.

Table 4. 27:

Current Employee Turnover

Current Employee Turnover	Frequency	Percentage
5%	25	7.4%
10%	64	18.8%
20%	163	47.9%
30%	61	18.0%
above 30%	27	7.9%
Total	340	100

The study findings indicate that 47.9% of SMEs experience a turnover rate of 20%, with 18.8% reporting 10%, and 7.9% exceeding 30%. High turnover disrupts productivity, as confirmed by Shaw et al. (2005), who found a strong negative correlation between turnover rates and firm performance. According to Herzberg's Two-Factor Theory, high turnover is often linked to dissatisfaction with working conditions, remuneration, and career growth (Herzberg, 1968). The results suggest that SMEs need to implement better retention strategies, such as competitive salaries and career development programs, to reduce turnover.

4.7.6 Do you carry out Customer Satisfaction Surveys

Table 31 shows respondents' responses to market surveys to measure customer satisfaction.

Table 4. 28:

Surveys Done

New business opportunities	Frequency	Percentage
Yes	110	32.4%
No	230	67.6%
Total	340	100

The study shows that 32.4% of SMEs conduct such surveys, whereas 67.6% do not. According to Parasuraman et al. (1988), businesses that frequently evaluate customer satisfaction are better positioned to enhance service quality and customer loyalty. The findings highlight that a significant proportion of SMEs are not leveraging customer feedback for strategic decision-making. Kotler and Keller (2012) argue that firms that actively seek customer feedback have a competitive advantage through improved service

delivery and product innovation. The low adoption rate suggests a need for more awareness regarding the benefits of customer insights.

4.7.7 If yes, what is the score of your last customer satisfaction survey?

The research sought to find out the outcomes of market surveys. The results are represented in Table 32.

Table 4. 29:

<i>Survey Score</i>		
Survey score	Frequency	Percentage
Not satisfied	30	27.6%
Satisfied	66	59.7%
Very satisfied	14	12.6%
Total	110	100

Among SMEs conducting customer satisfaction surveys, 59.7% reported their customers were satisfied, 12.6% were very satisfied, while 27.6% were not satisfied. These findings align with Oliver's Expectancy-Disconfirmation Theory, which states that customer satisfaction arises when perceived service exceeds expectations (Oliver, 1980). Zeithaml et al. (1996) also found that satisfied customers are more likely to remain loyal and recommend a business. The data indicates that while most SMEs achieve a satisfactory service level, there is room for improvement. SMEs should enhance service quality through customer relationship management strategies to improve satisfaction and retention.

4.8 Analytical Model Diagnostic Tests

Prior to selecting an analytical model for the data, it is important to ensure that the collected data meets the model's necessary assumptions. For this study, we evaluated the data to see

if it met the requirements of the classical linear regression model. The assumptions of linearity, normality, multicollinearity, and homoscedasticity were evaluated to determine the most appropriate statistical techniques for analyzing the data and presenting the results.

4.8.1 Normality Test

Normality tests assess whether sample data follows a normal distribution, a key assumption for parametric tests like correlation, regression, t-tests, and ANOVA (Ghasemi & Zahediasl, 2012). Common tests include the Kolmogorov-Smirnov and Shapiro-Wilk tests. In this study, both were used. The Shapiro-Wilk test's null hypothesis states non-normality, rejected if $p < 0.05$. If $p > 0.05$, the data is normally distributed. A failed test suggests deviation from normality with 95% confidence, while a passed test indicates no significant deviation from normality.

Table 4. 30:

Tests of Normality

	Kolmogorov-Smirnov^a			Shapiro-Wilk		
	Statistic	Df	Sig.	Statistic	df	Sig.
Innovativeness	0.063	340	.028	.987	340	0.011
Proactiveness	0.042	340	.040	.991	340	0.032
risk-taking propensity	0.061	340	.002	.983	340	0.024
opportunity obsession	0.023	340	.020	.992	340	0.029

Both tests yielded statistically significant results, with p-values below 0.05. This led to the rejection of the null hypothesis of normality, suggesting that the data for the variables did not conform to a normal distribution. As a result, the study opted for non-linear statistical methods rather than traditional linear techniques. This choice was made because the data did not meet the normality and other key assumptions required for classical linear models.

4.8.2 Autocorrelation Test

Tests for autocorrelation were conducted to ensure that the errors in the model are independent and not influenced by external factors. The Durbin-Watson statistic was used to evaluate potential autocorrelation. Ideally, the Durbin-Watson value should fall between 1.5 and 2.5 to indicate that there is no autocorrelation. The results, presented in Table 34, show a Durbin-Watson value of 2.062, which suggests that the errors are not autocorrelated.

Table 4. 31:

Model Summary

Model	Durbin-Watson
1	2.062

4.8.3 Multicollinearity

A multicollinearity test was performed to examine potential interrelationships among the independent variables. The Variance Inflation Factor (VIF) is an effective measure for detecting multicollinearity. In linear regression analysis, it is crucial for the independent variables to be free from correlations. However, if variables are correlated, they are not truly independent, meaning that a change in one variable can affect another (Taherdoost, 2016). Both tolerance and VIF tests were conducted for this purpose. VIF values greater than 10 signal a significant multicollinearity problem, while tolerance is the reciprocal of VIF. The outcomes of these tests are summarized in Table 35.

Table 4. 32:*Coefficients*

Model	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
Innovativeness	0.823	2.165
Proactiveness	0.574	1.129
risk-taking propensity	0.802	2.754
opportunity obsession	0.761	1.791

a. Dependent Variable: SMEs Performance

Having VIF values below ten among the independent variables (innovativeness, proactiveness, risk-taking propensity, and opportunity obsession) and tolerance values greater than 0.1, no severe multicollinearity existed in this model.

4.8.4 Homoscedasticity

Homoscedasticity was tested to determine the distribution of variances across the variables, and it is presented in Table 36.

Table 4. 33:*Homoscedasticity*

Levene's Test of Equality of Error Variances ^a		
Dependent Variable: SME performance		
	F	Sig.
Innovativeness	4.87	<0.001
Proactiveness	5.95	<0.001
risk-taking propensity	8.508	<0.001
opportunity obsession	17.084	<0.001

Tests the null hypothesis that the error variance of the dependent variable is equal across groups.

a Design: Intercept + innovativeness, proactiveness, risk-taking propensity and opportunity obsession

The variances of the errors associated with the dependent variable showed significant variation among groups ($p \leq 0.001$). This finding reveals that the error variances were not consistent, violating the assumption of homogeneity required for classical linear regression. Because this assumption was not met, classical linear regression was deemed unsuitable for the data. As a result, binary logistic regression analysis was employed as an alternative method.

4.9 Chi-square tests; Hypothesis Testing and the testing relationship between IV and DV

A chi-square test of significance was performed to test the study hypothesis and analyze the relationship between the independent variables (innovativeness, proactiveness, risk-taking propensity, and opportunity obsession) and the dependent variable (SMEs' performance), given the categorical nature of the data. This test assesses how well the independent variables are associated with the dependent variable by comparing two categorical variables. The P-value is crucial in determining the strength of evidence for a statistically significant relationship between these variables. Ranging from 0 to 1, the P-value indicates statistical significance, with smaller values suggesting stronger evidence. A p-value of 0.05 or less is considered to provide strong evidence of a significant

relationship between the categorical variables, while a p-value greater than 0.05 is not deemed statistically significant.

4.9.1 H0₁: Innovativeness does not have a statistically significant relationship with the SME performance in Nairobi County

We carried out a Chi-square test to analyze the connection between innovativeness and SME performance, addressing the first hypothesis. When interpreting the results, it is crucial to assess the strength of the relationship between the variables. A relationship is deemed significant if the p-value is 0.05 or lower. Conversely, for categorical variables, a p-value greater than 0.05 indicates that the relationship is not statistically significant. Additionally, in this Chi-square analysis, market share was used as an indicator of SME performance.

Table 4. 34:

Chi-Square Tests: Innovativeness and SME Performance

	Value	Asymptotic Significance (2-sided)	P-Value
Pearson Chi-Square	1.392a	0.000	0.000
Likelihood Ratio	1.189	0.000	0.000
No. of Valid Cases	340		

A chi-square analysis was conducted to examine the correlation between innovativeness and small and medium enterprise (SME) performance. Based on the findings, there is a significant statistical correlation between innovativeness and SME performance in Nairobi County, with a significance level of 5% ($P < 0.05$). As a result, null hypothesis 1 was rejected.

Table 4. 35:*Innovativeness and SME Performance Cross-tabulation*

					Innovativeness Recorded		Total
					No	Innovativeness	
What is your Company's market share?	5%	Count			6	77	83
		% within What is your Company's market share?			7.2%	92.8%	100.0%
	10%	Count			13	197	210
		% within What is your Company's market share?			6.2%	93.8%	100.0%
	20%	Count			1	20	21
		% within What is your Company's market share?			4.8%	95.2%	100.0%
	30%	Count			1	10	11
		% within What is your Company's market share?			9.1%	90.9%	100.0%
	above 30%	Count			2	13	15
		% within What is your Company's market share?			13.3%	86.7%	100.0%
Total		Count			23	317	340
		% within What is your Company's market share?			6.8%	93.2%	100.0%

From the results, if SME managers or owners implemented innovativeness in their businesses, SME performance would be achieved. In total, those who felt that there was no innovativeness, hence low market share (low SME performance) in Nairobi County, were 6.8%, while those who felt that there was innovativeness, thus high market share (high

SME performance) were 93.2%. The findings align with the chi-square test analysis, demonstrating a significant extensive connection between innovativeness and SME performance in Nairobi County.

The findings concur with those of Ndesaulwa and Kikula (2019), who studied how innovativeness impacts the thriving of small businesses. They realized that firms that were innovative in their operation had better turnover, growth, growth in employment opportunities, and growth in profits compared to firms that did not invest in innovation. Suppose the firms are not innovating, but their profit margins are better. In that case, they may have been innovated in the past, rendering the current innovative activities unnecessary. The level of innovation brought about the same level of overall SME performance as was asserted. These findings confirmed that firm growth is significantly impacted by the level of both product and process innovation.

4.9.2: H02: Proactiveness does not have a Statistically Significant Relationship with the SME Performance in Nairobi County

A Chi-square analysis was done to determine the relationship between proactiveness and SME performance. Results are revealed in table 39.

Table 4. 36:

Chi-Square Tests: Proactiveness and SME Performance

	Value	Asymptotic Significance (2-sided)	P-Value
Pearson Chi-Square	3.099a	0.000	0.000
Likelihood Ratio	2.586	0.000	0.000
No. of Valid Cases	340		

According to the results, the P-Value is at 0.000, thus indicating a strong statistical relationship between proactiveness and SME performance in Nairobi County at a 5% significance level ($P < 0.05$). Thus, null hypothesis 2 was rejected.

Table 4. 37:

Proactiveness and SME Performance Cross-tabulation

Proactiveness Recoded			No proactiveness	Proactiveness	Total
What is your Company's market share?	5%	Count	14	69	83
		% within What is your Company's market share?	16.9%	83.1%	100.0%
	10%	Count	34	176	210
		% within What is your Company's market share?	16.2%	83.8%	100.0%
	20%	Count	4	17	21
		% within What is your Company's market share?	19.0%	81.0%	100.0%
	30%	Count	4	7	11
		% within What is your Company's market share?	36.4%	63.6%	100.0%
	above 30%	Count	3	12	15
		% within What is your Company's market share?	20.0%	80.0%	100.0%
	Total	Count	59	281	340
		% within What is your Company's market share?	17.4%	82.6%	100.0%

The data revealed that 17.4% of respondents believed there was a lack of proactiveness, which was associated with lower market share and poorer SME performance in Nairobi County. In contrast, 82.6% of respondents felt that proactiveness led to higher market share

and better SME performance. The chi-square test results underscore a significant link between proactiveness and SME performance in Nairobi County. Implementing proactiveness is likely to result in improved performance for SMEs.

These findings align with research by Adefulu et al. (2018), which explored the impact of proactiveness on the growth of SMEs in Ogun State, Nigeria. Using a randomized selection of firms based on size and growth metrics, the study employed a survey design with structured questionnaires. Data from 386 companies were analyzed, with the validity and reliability of the instruments confirmed through the Cronbach Alpha test. The results indicated a significant relationship between entrepreneurial proactivity and SME growth in Ogun State.

4.9.3: H₀₃: Risk Taking Propensity does not have a statistically significant relationship with the SME performance in Nairobi County

A chi-square computation was conducted to determine how risk-taking propensity relates to the performance of small and medium-sized enterprises (SMEs). Table 41 shows the results and findings.

Table 4. 38:

Chi-Square Tests: Risk-Taking Propensity and SME Performance

	Value	Asymptotic Significance (2-sided)	P-Value
Pearson Chi-Square	4.755 ^a	0.013	0.013
Likelihood Ratio	4.914	0.022	0.022
No. of Valid Cases	340		

According to the results, the P-Value is at 0.022. This suggests a statistically significant relationship between risk-taking propensity and the performance of SMEs in Nairobi County, with a significance level of 5% ($P < 0.05$). As a result, null hypothesis 3 was rejected.

Table 4. 39:

Risk Taking Propensity and SME Performance Cross-tabulation

Risk Taking recoded				No Risk-taking	There is risk-taking	Total
What is your Company's market share?	5%	Count		4	79	83
		% within What is your Company's market share?		4.8%	95.2%	100.0%
	10%	Count		8	202	210
		% within What is your Company's market share?		3.8%	96.2%	100.0%
	20%	Count		0	21	21

		% within Company's share?	What is your market	0.0%	100.0%	100.0%
		Count		0	11	11
	30%	% within Company's share?	What is your market	0.0%	100.0%	100.0%
		Count		2	13	15
	above 30%	% within Company's share?	What is your market	13.3%	86.7%	100.0%
		Count		14	326	340
Total		% within Company's share?	What is your market	4.1%	95.9%	100.0%

From the results, those who felt that there was no risk-taking propensity, hence low market share (low SME performance) in Nairobi County, were merely 4.1%, while the majority were those who felt that there was risk-taking propensity leading to high market share (high SME performance) were 95.9%. The findings align with the chi-square test analysis, which revealed a robust significant relationship between risk-taking propensity and the performance of SMEs in Nairobi County. From the findings, if SME managers or owners implemented risk-taking propensity in their businesses, high SME performance would be achieved.

The findings concur with that of Kitigin (2021), who utilized an ex-post facto research design to examine the association between risk-taking behaviour and business performance within a group of SMEs in Eldoret municipality. The research aimed to investigate whether small and medium-sized enterprises pursued market expansion strategies as a means to improve their operational efficiency. Additionally, it investigated whether these firms adopted bold and assertive measures to improve their likelihood of successfully penetrating

new markets. His study revealed a significant correlation between risk-taking behaviour and business performance among small and medium-sized enterprises (SMEs) in Eldoret.

According to Mautra (2018) assertion, there is no inherent contradiction between entrepreneurship and a disposition towards taking risks. Due to the inherent nature of entrepreneurs, characterized by a propensity for risk-taking, playing it safe is not typically a favoured approach. An entrepreneur's risk level is typically beyond the threshold of what an average individual would be willing to accept. He capitalizes on opportunities by manoeuvring between them, hence the reason. Individuals who maintain an average status tend to remain within their comfort zone, opting for minimal risk exposure.

Conversely, those who take risks possess a distinct outlook. Forlani and Mullin (2020) have expounded on how a particular conduct or combination of behaviours can lead to potential losses and a degree of uncertainty regarding the resulting consequences. Dhliwayo and Vuuren (2019) posit that possessing an entrepreneurial mindset entails regarding risk-taking as a pivotal component. The significance of risk-taking for a company's expansion and triumph is contingent upon the entrepreneurs' perspective and management of hazards.

4.9.4: H04: Opportunity Obsession does not have a statistically significant relationship with the SME performance in Nairobi County

To represent the “opportunity obsession variable”, the question “Have you identified new business opportunities in the past year?” was used in the chi-square test. The results are published in table 43.

Table 4. 40:*Chi-Square Tests: Opportunity Obsession and SME Performance*

	Value	Asymptotic Significance (2-sided)	P-Value
Pearson Chi-Square	1.1460 ^a	0.887	0.034
Likelihood Ratio	1.2110	0.876	0.025
No. of Valid Cases	340		

The results clearly showed a statistically significant connection between opportunity obsession and SME performance in Nairobi County, with a significance level of 5% ($P < 0.05$). As a result, the fourth null hypothesis was rejected.

Table 4. 41:*Risk Opportunity Obsession and SME Performance Cross-tabulation*

		Have you identified new business opportunities in the past year?		Total
		Yes	No	
What is your Company's market share?	5%	27	56	83
	10%	65	145	210
	20%	6	15	21
	30%	4	7	11
	above 30%	3	12	15
Total		105	235	340

The results revealed that 235 respondents (69.1%) believed their SMEs had not discovered new business opportunities in the past year, leading to lower market share and performance in Nairobi County. Conversely, 105 respondents (30.9%) felt their SMEs had identified new opportunities, resulting in higher market share and better performance. This finding aligns with the chi-square test analysis, which showed a significant link between opportunity obsession and SME performance. Implementing strategies focused on opportunity recognition could potentially enhance SME performance.

In support of these findings, Hartono and Ardini (2022) investigated how business model innovation affects SME performance, highlighting a correlation between opportunity recognition and organizational capabilities. Their study, which analyzed data from 100 SME owners in Jakarta using moderated regression analysis, found that while opportunity recognition is important, organizational capability has a greater impact on performance. Business model innovation was identified as a key mediator, amplifying the effect of organizational capability while moderating the influence of opportunity recognition. The moderated regression analysis, involving 1,589 participants, revealed a significant relationship between organizational capability and SME success, with the correlation increasing to 0.724 when business model innovation was factored in, and a decreased correlation of 0.657 between SME performance and opportunity recognition alone. This indicates that SME performance is significantly influenced by the interplay of opportunity recognition, organizational effectiveness, and business model innovation.

Table 4. 42:

Summary: Chi-Square Test Analysis for Measuring the Association between Each Variable and SME Performance

	Value	Asymptotic Significance (2-sided)	P-Value
Innovativeness			
Pearson Chi-Square	1.392 ^a	0.000	0.000
Likelihood Ratio	1.189	0.000	0.000
N of Valid Cases	340		
Proactiveness			
Pearson Chi-Square	3.099 ^a	0.000	0.000
Likelihood Ratio	2.586	0.000	0.000
N of Valid Cases	340		
Risk Taking Propensity			
Pearson Chi-Square	4.755 ^a	0.013	0.013
Likelihood Ratio	4.914	0.022	0.022
N of Valid Cases	340		
Opportunity Obsession			
Pearson Chi-Square	1.146 ^a	0.034	0.034
Likelihood Ratio	1.211	0.025	0.025
N of Valid Cases	340		

The Chi-Square Test Analysis summary shows a significant relationship between each variable and learner goal achievement, with all p-values falling below 0.05 (specifically, 0.000). This indicates a strong and meaningful connection between factors like innovativeness, proactiveness, risk-taking propensity, and opportunity obsession with the performance of small and medium-sized enterprises (SMEs). For SMEs in Nairobi County to achieve high performance, it is essential for their managers and owners to focus on effectively implementing these factors.

These findings are consistent with research by Isichei et al. (2020), which explored the influence of structural infrastructure capability on the link between entrepreneurial orientation (EO) and SME performance in emerging economies, specifically Nigeria. Their

study highlighted the importance of empowering SMEs to manage external challenges effectively and contribute to economic growth through robust internal management strategies. Using a survey of 377 SMEs across Nigeria's six geopolitical zones and analyzing the data with SmartPLSv3 and partial least squares structural equation modeling (PLS-SEM), the research found that factors such as innovativeness and proactiveness significantly affected SME performance. Conversely, engaging in risky behaviors did not negatively impact performance. The research emphasizes the importance of adopting dimensions of entrepreneurial orientation to improve business performance.

4.10 Binary Regression Analysis

In addition to using Chi-square analysis to test the study hypothesis, conducting binary logistic regression analysis was essential. While Chi-square analysis provides insights into associations between categorical variables, regression modeling offers a deeper understanding by quantifying the specific impact of each independent variable on the dependent variable. This analysis helps researchers determine the most influential factors affecting SME performance, assess the relative importance of different predictors, and explore how these variables interact.

4.10.1 Regression Analysis of Innovativeness and SME Performance

To determine whether a relationship exists between innovativeness and SME performance, a binary logistic regression analysis was conducted. The results are presented in Table 46.

Table 4. 43:

Variables in the Equation - Innovativeness

Variable	B	S.E.	P-value	Odds Ratio
Innovativeness (1)	-3.117	0.256	0.000	0.025

The results indicate a significant relationship between innovativeness and SME performance ($p\text{-value} < 0.05$). The negative B coefficient (-3.117) suggests that a lack of innovativeness significantly reduces the likelihood of achieving SME performance. The odds ratio ($\text{Exp}(B) = 0.025$) implies that SMEs without innovativeness are 0.025 times as likely to achieve high performance compared to those exhibiting innovativeness.

4.10.2 Regression Analysis of Proactiveness and SME Performance

Binary logistic regression was also conducted to evaluate the effect of proactiveness on SME performance. The results are presented in Table 47.

Table 4. 44:

Variables in the Equation - Proactiveness

Variable	B	S.E.	P-value	Odds Ratio
Proactiveness (1)	-2.081	0.228	0.000	0.112

The analysis reveals a significant relationship between proactiveness and SME performance ($p\text{-value} < 0.05$). The negative B coefficient (-2.081) suggests that lower levels of proactiveness reduce the probability of achieving SME performance. The odds

ratio ($\text{Exp}(B) = 0.112$) indicates that SMEs lacking proactiveness are 0.112 times as likely to attain high performance compared to proactive SMEs.

4.10.3 Regression Analysis of Risk-Taking Propensity and SME Performance

To examine the relationship between risk-taking propensity and SME performance, a binary logistic regression analysis was conducted. The results are summarized in Table 48.

Table 4. 45:

Variables in the Equation - Risk-taking Propensity

	B		P-value	Odds Ratio
Risk-taking propensity (1)	-2.190	0.230	0.000	0.110

Source: Research Data (2023)

The results confirm a significant relationship between risk-taking propensity and SME performance ($p\text{-value} < 0.05$). The negative B coefficient (-2.190) implies that SMEs with low risk-taking propensity have reduced chances of performing well. The odds ratio ($\text{Exp}(B) = 0.110$) suggests that SMEs without a strong risk-taking culture are 0.110 times as likely to achieve success in comparison to those that engage in calculated risk-taking.

4.10.4 Regression Analysis of Opportunity Obsession and SME Performance

Binary logistic regression was further used to evaluate the relationship between opportunity obsession and SME performance. The results are shown in Table 49.

Table 4. 46:

Variables in the Equation - Opportunity Obsession

	B	S.E.	P-value	Odds Ratio
Opportunity obsession (1)	-2.084	0.241	0.000	0.142

Source: Research Data (2023)

The findings indicate a significant relationship between opportunity obsession and SME performance (p-value < 0.05). The negative B coefficient (-2.084) demonstrates that a lack of opportunity obsession decreases the likelihood of SME success. The odds ratio (Exp(B) = 0.142) signifies that SMEs without opportunity obsession are 0.142 times as likely to succeed and matched to those that actively pursue new opportunities.

4.10.5 Model Summary of Binary Regression Analysis

To evaluate the overall contribution of each autonomous variable to SME performance, a model summary was generated, as shown in Table 50.

Table 4. 47:

Model Summary of Binary Regression Analysis

Variable	Deviate Score	Cox & Snell R Square	Nagelkerke R Square
Innovativeness	413.096 ^a	0.247	0.301
Proactiveness	497.900 ^a	0.136	0.361
Risk-taking propensity	490.338 ^a	0.146	0.338
Opportunity obsession	498.843 ^a	0.142	0.374

Source: Research Data (2023)

Nagelkerke R Square values indicate the percentage of variance in SME performance explained by each independent variable. Innovativeness accounts for 30.1% of the variation in SME performance, proactiveness explains 32.1%, risk-taking propensity contributes 33.8%, and opportunity obsession has the highest impact, explaining 37.4% of the variance. These findings highlight the critical role of opportunity obsession in SME success, followed closely by risk-taking propensity.

4.10.6 Hypothesis Testing

Table 4. 48:

Hypothesis Testing Summary Table

Null Hypothesis	Results
H ₀ 1: Innovativeness does not have a statistically significant relationship with the SME performance in Nairobi County	Hypothesis was rejected
H ₀ 2: Proactiveness does not have a statistically significant relationship with the SME performance in Nairobi County	Hypothesis was dismissed
H ₀ 3: Risk-taking propensity does not have a statistically significant relationship with the SME performance in Nairobi County	Hypothesis was disregarded
H ₀ 4: Opportunity obsession does not have a statistically significant relationship with the SME performance in Nairobi County	Hypothesis was discounted

H₀1: Innovativeness and SME Performance

The study established that innovativeness has a statistically significant relationship with SME performance in Nairobi County, as indicated by a p-value below 0.05. This directed to the rejection of the null hypothesis. SMEs that embrace innovation in product development, service delivery, and operational efficiency experience improved market

competitiveness and growth. Innovation enables businesses to differentiate themselves, attract customers, and adapt to changing market conditions, ultimately enhancing their overall performance.

Ho2: Proactiveness and SME Performance

The study established a significant statistical link between proactiveness and SME performance, leading to the dismissal of the null hypothesis. A p-value below 0.05 confirmed that proactive SMEs perform better. Businesses that anticipate market trends, respond quickly to customer needs, and take strategic initiatives ahead of competitors gain a competitive edge. Proactiveness fosters long-term sustainability by enabling SMEs to seize emerging opportunities and mitigate risks, ultimately improving performance and market positioning.

Ho3: Risk-Taking Propensity and SME Performance

The hypothesis that risk-taking propensity has no significant effect on SME performance was disregarded, since the findings indicated a strong correlation. A p-value below 0.05 demonstrated that SMEs willing to take calculated risks, such as expanding into new markets or investing in innovative ideas, achieve higher performance. Risk-taking encourages business growth, fosters resilience, and enhances profitability. However, SMEs must balance risks with strategic planning to maximize benefits while minimizing potential losses.

Ho4: Opportunity Obsession and SME Performance

The study found a significant relationship between opportunity obsession and SME performance, leading to rejection of the null hypothesis. A p-value below 0.05 indicated that SMEs actively seeking new opportunities achieve better results. Opportunity-obsessed SMEs continuously explore new market segments, diversify products, and adapt to industry changes. This strategic mindset drives business expansion and competitive advantage. Emphasizing opportunity identification and exploitation enables SMEs to sustain growth and improve overall performance.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This section provides a summary of the main findings and conclusions of the study, along with suggestions for recommendations and guidance for future research.

5.2 Summary of Findings

5.2.1 Relationship Between Innovativeness and SME Performance in Nairobi County

The study found that there was a significant relationship between innovativeness and SME performance, as indicated by a Chi-square analysis with a p-value of less than 0.05. This statistical significance led to the rejection of the null hypothesis, confirming a strong correlation. The study found that 93.2% of respondents associated high levels of innovativeness with increased market share, signifying strong SME performance, while 6.8% believed that low innovativeness resulted in poor performance.

5.2.2 Relationship Between Proactiveness and SME Performance in Nairobi County

The study found that proactiveness had a statistically significant relationship with SME performance, as evidenced by a Chi-square test with a p-value of 0.000. Given that this result is significant at the 5% level, the null hypothesis was rejected. The study found that 82.6% of respondents believed that proactiveness led to increased market share and improved business performance, while 17.4% associated low market share with a lack of proactiveness.

5.2.3 Relationship Between Risk-taking Propensity and SME Performance in Nairobi County

The study found that risk-taking propensity had a statistically significant relationship with SME performance, as revealed by a Chi-square test with a p-value of 0.022. This result, significant at the 5% level, led to the rejection of the null hypothesis. The study found that 95.9% of respondents believed that taking risks contributed to a high market share, whereas only 4.1% felt that risk-taking led to a low market share.

5.2.4 Relationship Between Opportunity Obsession and SME Performance in Nairobi County

The study found that opportunity obsession had a statistically significant impact on SME performance, as indicated by a Chi-square test with a p-value below 0.05. This statistical significance led to the rejection of the null hypothesis. The study found that 69.1% of respondents believed that failing to explore new business opportunities resulted in a low market share, whereas 30.9% associated opportunity identification with high market share..

5.3 Conclusions of the Study

5.3.1 Innovativeness and SMEs' Performance

The study concluded that there is a statistically significant relationship between innovativeness and the performance of SMEs in Nairobi County, as indicated by a Chi-square analysis with a p-value of less than 0.05. This led to the rejection of the null hypothesis, confirming that SMEs that embrace innovation are more likely to experience higher market share and overall business growth. The study further concluded that fostering

a culture of innovation, such as adopting new technologies, product development, and creative business strategies, enhances competitiveness and sustainability in the SME sector.

5.3.2 Proactiveness and SMEs' Performance

The study resolved that proactiveness has strong positive impact on SME performance, as demonstrated by a statistically significant Chi-square test result ($p < 0.05$). This finding led to the rejection of the null hypothesis, confirming that SMEs that take proactive initiatives such as anticipating market trends, engaging in strategic planning, and responding swiftly to emerging opportunities achieve better performance outcomes. The study further concluded that a proactive approach fosters business resilience, enhances competitive positioning, and contributes to long-term SME success.

5.3.3 Risk-Taking Propensity and SMEs' Performance

The study concluded that risk-taking propensity significantly influences SME performance, as evidenced by the Chi-square analysis ($p < 0.05$). This statistical significance steered the rejection of the null hypothesis, confirming that SMEs willing to take calculated risks such as investing in new markets, testing innovative business models, and expanding operations are more likely to achieve higher market share and overall growth. The study further concluded that a well-balanced approach to risk-taking enables SMEs to seize profitable prospects while mitigating potential financial losses.

5.3.4 Opportunity Obsession and SMEs' Performance

The study concluded that opportunity obsession has a statistically significant relationship with SME performance, as indicated by a Chi-square analysis with a p-value of less than 0.05. This led to the rejection of the null hypothesis, affirming that SMEs that actively seek and capitalize on new business opportunities experience enhanced growth and market share. The study further concluded that continuous opportunity identification—through market research, customer engagement, and strategic partnerships—drives innovation, competitiveness, and long-term business success.

5.4 Recommendations of the Study

The study recommended that SME owners and managers should prioritize innovativeness by continuously developing new products, services, and business models to remain competitive. SMEs should invest in research and development (R&D), adopt emerging technologies, and encourage creative problem-solving among employees to drive business growth. Additionally, government agencies and financial institutions should provide incentives, such as innovation grants and funding, to support SMEs in their innovation efforts.

This research study recommends SME owners and managers to adopt a proactive business approach by anticipating market trends, identifying potential risks, and strategically planning for future growth. Business training programs should emphasize the importance of proactive decision-making and strategic foresight. Additionally, SMEs should leverage digital tools, data analytics, and customer feedback to make informed business decisions and stay ahead of competitors.

The research study recommended that SMEs should embrace a calculated risk-taking culture to enhance their performance. Business owners should assess risks carefully, develop risk management strategies, and make informed investment decisions. Financial institutions and policymakers should also create financial products tailored to support SMEs in undertaking controlled business risks, such as low-interest loans and venture capital funding.

The study acclaimed that SME owners and managers should actively seek and exploit new business opportunities to enhance market share and sustainability. This can be achieved by conducting regular market research, networking with industry players, and leveraging digital platforms to identify emerging trends. Additionally, SMEs should participate in business incubation programs and mentorship initiatives to gain insights on seizing growth opportunities effectively.

5.5 Recommendations for Further Studies

The study focused on the IV (innovativeness, proactiveness, risk-taking propensity and opportunity obsession and their relationship with the DV (SME performance) was statistically significant. Further study that would include more or different IVs was recommended to find out whether the relationship with the DV would remain the same in Nairobi County. A study could also be carried out using the same IV and DV as in this study but in a different county to find out the relationship between them.

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APPENDICES

Appendix I: Questionnaire

Section A: General Information

1. Gender: Male ☐ Female ☐

Age of the business: 1-10 years ☐ 11-20 years ☐ 21- 30 years ☐ over 30 years ☐

2. The highest academic level attained?

Diploma ☐ Undergraduate ☐ Masters ☐ Doctorate

3. Position of the respondents:

4. Non Managerial ☐ General Manager ☐ Owner ☐

Firm size (Number of Employees):

(Micro) ☐ 50 (Small) ☐ 150 (Medium) ☐

Form of business: Sole proprietorship ☐ Partnership ☐ Limited Liability ☐

Which is your business category?

a) Real estate ☐ b) Entertainment ☐ c) Hotel and Food industry ☐

d) Computer and technology ☐ e) Travel and Tourism ☐ f) Building and

Construction ☐ g) Manufacturing ☐ h) Fashion industry ☐ i) Consultancy ☐

SECTION B: INNOVATIVENESS

Does your SME introduce new products?

Yes ☐

No ☐

Does your SME invest in research and development to improve existing products or services?

Yes ☐

No ☐

Does your SME have a formal process in place for idea generation and evaluation?

Yes []

No []

Does your SME benchmark against competitors and other industry leaders to identify best practices?

Yes []

No []

Does your SME invest in research and development to improve existing products or services?

Yes []

No []

Please rate how you concur on the statements below, with 1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree, 5=Strongly Agree,

Innovativeness Variable	1	2	3	4	5
Our Company encourages and supports new and creative ideas.					
Our Company encourages innovation in its undertakings.					
Our Company embraces new technology.					
We encourage employees to have original and distinct thinking.					
We welcome all new forms of thinking.					
The Company is slow in adopting new products and service lines.					

SECTION C: PROACTIVENESS

Please rate on the following scale, 1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree, 5=Strongly Agree, how you concur with the following statements.

Proactiveness Variable	1	2	3	4	5
Our staff leads in finding and recognizing customers' needs.					

Our Company takes an aggressive posture compared to the competition.					
We have a strategic plan for growth and expansion.					
Our company is always informed of new emerging trends.					
Our Company is driven forward by its goals, beliefs and values.					
The Company is always ahead of its competitors.					

Does your Company actively seek out new business opportunities?

Yes []

No []

Does your Company invest in new technology to stay ahead of competitors?

Yes []

No []

Does your SME regularly scan the environment for changes that could impact its business?

Yes []

No []

Does your SME have a clear understanding of its competitors and their strengths and weaknesses?

Yes []

No []

Does your SME have a strategic plan for growth and expansion?

Yes []

No []

SECTION D: RISK-TAKING PROPENSITY

Please rate how you agree or disagree on the statements below with 1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree, 5=Strongly Agree

Risk-taking Variable	1	2	3	4	5
We always adopt new technology trends.					
Our Company encourages employees to take risks without fear of the outcome.					
Our company is risk-averse to costly projects.					
As a company, we are aggressive and make firm decisions for the firm's progress.					
This Company has daring employees.					
We Endeavour to take calculated risks in our operations.					

Does your SME invest in research and development to create new products or services?

Yes []

No []

Does your SME invest in new markets or industries that are not yet established?

Yes []

No []

Does your SME have a formal process for identifying and evaluating new business opportunities that involve a high degree of risk?

Yes []

No []

SECTION E: OPPORTUNITY OBSESSION

Have you explored new markets in the past year?

Yes []

No []

How often do you proactively seek out information about new market trends or customer needs?

a) Rarely

b) Occasionally

c) Frequently

d) Always

Have you identified new business opportunities in the past year?

Yes []

No []

How often do you search for new business opportunities?

a) Rarely

b) Occasionally

c) Frequently

d) Always

SECTION F: SME PERFORMANCE

What is your Company's market share?

a. 5%

b. 10%

c. 20%

d. 30%

e. Above 30%

Has your Company's revenue increased in the past year?

Yes []

No []

What is your Company's annual revenue?

a. KES 1 million

b. KES 5 million

c. KES 10 million

d. Over KES 50 million

Has your Company expanded into new markets in the past year?

Yes []

No []

What's your current employee turnover?

a. 5%

b. 10%

c. 20%

d. 30%

e. Over 30%

Do you carry out customer satisfaction surveys?

Yes []

No []

If yes, what's the score of your last customer satisfaction survey?

1=Not satisfied, 2=satisfied, 3=Very satisfied ,

1

2

3

Appendix II: Introduction Letter

Kenya Methodist University,

P.O. Box 45240 – 00100,

NAIROBI.

Dear respondents,

My name is Caroline Wanjiru Woto. I am currently enrolled in the Master of Business Administration program at Kenya Methodist University. The primary objective of this correspondence is to kindly solicit your assistance in facilitating a research endeavour focused on examining the **correlation between entrepreneurial orientation and the performance of small and medium-sized enterprises (SMEs) within Nairobi County.**

Rest assured that the information you provide will be treated with utmost confidentiality and will not be disclosed to any third parties. I kindly request that you provide responses that are honest and accurate. Enclosed herewith is a questionnaire accompanying this correspondence. I express my sincere gratitude for your invaluable assistance.

Yours faithfully,

CAROLINE WANJIRU WOTO

BUS-3-0838-02/2019

Appendix III: NACOSTI Certificate

 REPUBLIC OF KENYA	 NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION
Ref No: 564659	Date of Issue: 14/October/2024
RESEARCH LICENSE	
	
This is to Certify that Ms.. Caroline Wanjiru Woto of Kenya Methodist University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Nairobi on the topic: THE RELATIONSHIP BETWEEN ENTREPRENEURIAL ORIENTATION AND PERFORMANCE OF SMES IN NAIROBI COUNTY for the period ending : 14/October/2025.	
License No: NACOSTI/P/24/40921	
564659	
Applicant Identification Number	Director General NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION
	Verification QR Code
	
NOTE: This is a computer generated License. To verify the authenticity of this document, Scan the QR Code using QR scanner application.	
See overleaf for conditions	

Appendix IV: University Letter



KENYA METHODIST UNIVERSITY

P. O. Box 267 Meru - 60200, Kenya
Tel: 254-064-30301/31229/30367/31171

Fax: 254-64-30162
Email: deanrd@kemu.ac.ke

DIRECTORATE OF POSTGRADUATE STUDIES

June 27, 2023

Commission Secretary
National Commission for Science, Technology and Innovations
P.O. Box 30623-00100
NAIROBI

Dear Sir/Madam,

RE: CAROLINE WANJIRU WOTO (REG. NO. BUS-3-0838-2/2019)

This is to confirm that the above named is a bona fide student of Kenya Methodist University, in the Department of Business Administration, undertaking a Master's Degree in Business Administration. She is conducting research on; "The Relationship between Entrepreneurial Orientation and Performance of SMEs in Nairobi County".

We confirm that her research proposal has been defended and approved by the University.

In this regard, we are requesting your office to issue a research license to enable her collect data.

Any assistance accorded to her will be highly appreciated.

Yours sincerely,


Dr. John M. Muchiri (PhD)
Dean, Postgraduate Studies

Cc: Dean SBUE
CoD, Business Administration
Postgraduate Coordinator
Supervisors