

Effect of Product Innovation Practice on Financial Performance of Small and Medium-sized Enterprises in Nyanza Region, Kenya.

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ABSTRACT

This study examined the effect of product innovation practices on the financial performance of small and medium-sized enterprises (SMEs) in the Nyanza Region of Kenya. The investigation was motivated by the need to bridge the empirical gap surrounding the impact of entrepreneurial marketing practices—specifically product innovation—on SME performance in semi-urban and rural areas, where research has been limited. Anchored on Schumpeter's Theory of Innovation, the study adopted a cross-sectional design and positivist research philosophy, utilizing a sample of 364 registered SMEs selected through simple random sampling from Kisii, Migori, and Nyamira counties. Primary data were collected using structured questionnaires and analyzed using descriptive and inferential statistics through SPSS version 29. Regression analysis indicated a moderate positive relationship between product innovation and financial performance ($R = 0.65$; $R^2 = 0.423$), suggesting that 42.3% of the variation in financial outcomes among SMEs could be attributed to product innovation. The results revealed that SMEs engaging in new product development, improving existing products, and diversifying product lines experienced enhanced profitability, increased sales turnover, and expanded market share. However, the study also identified key barriers to innovation, including limited access to technology (38%), legal constraints (22%), low market demand (21%), cultural barriers (10%), and weak intellectual property rights (9%). Despite some respondents expressing skepticism regarding the necessity of product innovation, the majority affirmed its significant contribution to business performance. The study concluded that product innovation is a critical determinant of SME financial success and sustainability in Nyanza. It recommended that SME owners prioritize innovation by fostering a culture of creativity and investing in research and development. Additionally, policy-makers and financial institutions were urged to establish supportive environments through innovation incentives, credit access, and enhanced intellectual property frameworks. The study suggested further research employing longitudinal designs and incorporating other marketing dimensions such as pricing and promotion to gain a holistic understanding of SME growth drivers.

Keywords: Product Innovation Practices, Financial Performance, Small and Medium Enterprises, New Product Development, Technological Advancement,

APA REFERENCE

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1.0 INTRODUCTION

1.1 Background of the Study

Innovation, as both a process and an outcome, involves transformative changes in organizational behaviors aimed at improving services and delivering substantial benefits to customers (Dorson, 2017). It is broadly recognized as any activity, product, process, or organizational practice that contributes value to sustainable development (Dorson, 2017). Bwisa (2011) reinforced this view by interpreting innovation as the process of adding value to existing products or services. Product innovation, in particular, is considered a continuous and cross-functional process that integrates a diverse range of competencies both within and beyond the organizational boundaries (Moha med & Tarmuchi, 2018). This has attracted scholarly attention, with Agustia et al. (2022) emphasizing the significance of product innovation on firm performance, although noting that technology capabilities do not directly influence this relationship. However, these capabilities do moderate the impact of product innovation, revealing a nuanced interaction between technology and innovation. Indonesia's global innovation standing—85th out of 131 countries in the 2020 Global Innovation Index—reflects these dynamics (Agustia et al., 2022). Kemenko-Marves (2021) further emphasized that national economic performance is significantly driven by product innovation and firm-level creativity. Ramadani et al. (2019) argued that product innovation enhances resource utilization, boosts return on investment and sales, and creates new market opportunities for businesses of all sizes, including small and medium-sized enterprises (SMEs). In today's globally evolving marketing environment, driven by technology and entrepreneurship, product innovation remains crucial. Marketers must ensure that customers stay aligned with ongoing technological and innovation trends to maintain competitiveness. Otika, Nwaizugbo, and Olise (2019) argued that Micro, Small, and Medium Enterprises (MSMEs) rely on entrepreneurial marketing practices (EMP) to achieve effective performance. Miles (2017) also observed that MSMEs play a vital socio-economic role by promoting innovation, spreading technology, enhancing employment, and fostering entrepreneurship. Internationally, SMEs are key economic pillars: they account for 38.9% of GDP in Malaysia, 65% in the United States, and 60% across India, Japan, and China. Similarly, SMEs contribute 52% of GDP in the European Union and 47% (rising to 52%) in the United Kingdom. Across Africa, they represent over 90% of businesses and contribute around 50% to GDP and employment (Steering Group, 2017). In Nigeria and South Africa, SMEs account for 48% and 52% of GDP respectively (Abiodun & Harry, 2014, as cited by Kawira, 2017). Waithaka, Muturi, and Nyabuto (2014) posited that African SMEs must adopt structured marketing strategies to foster market relationships and competitiveness. In Egypt, MSMEs constitute over 90% of businesses, contributing more than 80% of GDP and 75% of employment (Steering Group, 2015), while in Uganda, they are instrumental in economic transformation, comprising 90% of private sector employment and contributing 20% to GDP (UBOS, 2016; UIA, 2016). In Kenya, SMEs employ 14.9 to 15 million people (KNBS, 2016) and are recognized as critical to achieving Vision 2030 by forming a robust industrial and developmental base. Nonetheless, Kenyan SMEs face significant challenges including limited innovation, inadequate marketing and invention skills, and insufficient customer care practices, which inhibit their growth and performance (Mwangi, 2013). The World Bank (2014) recommended scaling SMEs into larger enterprises to generate greater employment opportunities. Janet and Ngugi (2014) highlighted that entrepreneurial marketing practices drive economic development among SMEs. However, despite their fundamental role, Kenyan SMEs continue to struggle with constraints such as unfavorable policies, poor infrastructure, global competition, limited market access, and outdated marketing strategies (Mwangi & Ngugi,

Research Bridge Publisher, International Journal of Innovations and Interdisciplinary Research, Vol.3, Issue 1, pp: (15-32), Month: January-December 2025, Available at: <https://researchbridgepublisher.com/> 2014; WB, 2015). Therefore, to thrive amid evolving market demands and risks, SMEs must adopt more competitive and innovative approaches (Fatoki, 2019; Fatoki, 2020; Janet & Ngugi, 2014). As noted by KNBS (2016, 2018) and KER (2020), SMEs in Kenya are the backbone of economic growth, employment, and income generation. In alignment with Kenya's Vision 2030, SMEs are viewed as the cornerstone of industrial development and domestic advancement. Kawira (2021) asserted that SMEs contribute significantly to national development through job creation, income generation, and the creation of markets for goods and services. Fatoki (2019) and Njau & Karugu (2014) affirmed the critical role SMEs play in stimulating national economic growth. Consequently, understanding how product innovation practices influence the financial performance of SMEs in Kenya, particularly within the Nyanza region, becomes imperative to fostering sustainable growth and economic transformation.

1.2. Statement of the problem

Entrepreneurial Marketing Practices (EMPs) are recognized as vital drivers of financial performance for Small and Medium-sized Enterprises (SMEs) in both developed and developing economies (Fatoki, 2020; Otika et al., 2019). However, despite their importance, the link between EMPs and SME financial performance remains complex and inconclusive, as multiple external and internal variables—including economic, political, socio-cultural, legal frameworks, competition, government regulations, human resource structures, employee motivation, managerial practices, and contextual differences—can influence enterprise performance outcomes (Bhaskar & Thaka, 2023; Jadhav et al., 2023). In Kenya, SMEs contribute approximately 33% to the national Gross Domestic Product (GDP) and provide employment to about 85% of the working population, translating to an estimated 14.9–15 million people (KNBS, 2023). Yet, only 20% of these enterprises reportedly engage in direct product innovation (Mugisha & Kahiigi, 2023). A survey by Ochieng et al. (2023) revealed that 65% of SMEs that introduced new products experienced increased market share, while those that failed to innovate saw a 20% drop in customer retention. The Nyanza Region, encompassing counties such as Kisii, Nyamira, and Migori, provides a compelling context for examining the impact of EMPs due to its diverse economic landscape—including public universities, technical and vocational education training institutions (TVETs), agriculture, hospitality, retail, woodwork, and education sectors. Despite the region's entrepreneurial potential, previous studies (Kawira, 2020; Kimathi, 2021; KNBS, 2017) have consistently identified poor or ineffective marketing practices as critical constraints to SME financial growth. While some empirical efforts have examined the EMP-financial performance relationship in urban centers like Nairobi CBD, Kiambu, Tharaka-Nithi, and Kisumu (Forkuoh et al., 2016; Janet & Ngugi, 2014; Sije & Oloko, 2014; Kimathi et al., 2019), few have explicitly focused on Nyanza's rural and semi-urban SME ecosystems or considered whether government policies moderate this relationship. Statistically, GDP per capita data between 2017 and 2020 for Migori (KES 87,960), Nyamira (KES 144,521), and Kisii (KES 118,858) counties fall short compared to counties like Kiambu or Nairobi, where such studies have been more concentrated (KNBS, 2019; Kawira, 2021). This economic underperformance has been partially attributed to limited or ineffective marketing practices, lack of strategic innovation, and poor product visibility, contributing to a high failure rate of SMEs—many of which do not survive beyond their second year (KNBS, 2016; Kawira, 2020; Sije & Oloko, 2017; Mugambi & Karugu, 2017). These findings underscore a critical knowledge gap in understanding how EMPs influence financial outcomes in under-researched rural contexts like Nyanza. Therefore, this study seeks to bridge this gap by investigating the effect of product innovation as an element of entrepreneurial marketing practice on the financial performance of SMEs in Nyanza Region,

Research Bridge Publisher, International Journal of Innovations and Interdisciplinary Research, Vol.3, Issue 1, pp: (15-32), Month: January-December 2025, Available at: <https://researchbridgepublisher.com/> Kenya. By employing rigorous methodologies and analyzing sector-specific data, the research aims to generate actionable insights for policymakers, entrepreneurs, and other stakeholders seeking to improve SME competitiveness and sustainability through innovation-led marketing strategies.

1.3 Objective of the study

The general objective of this study was to assess the effect of product innovation practice on financial performance of small and medium-sized enterprises in Nyanza Region, Kenya

1.4 Research Question

What is the effect of product innovation practice on financial performance of small and medium-sized enterprises in Nyanza Region, Kenya?

1.5 Research Hypothesis

H₀₁: *Product innovation practice has no statistically significant effect on the financial performance of small and medium-sized enterprises in Nyanza Region, Kenya*

1.6 Scope of the study

This study would seek to examine the influence of Product innovation practice on financial Performance of SMEs in Kenya; the study was narrowed down to Nyanza Region; Kenya, further selected three Counties in Nyanza Region; Kenya (Nyamira, Kisii, and Migori) in the same region and was limited to registered SMEs only. The unit of observation for this study would be 6,606 registered SMEs in Kenya. 364 respondents formed the Unit of Analysis/Sample size of the study, (Owners/Managers of these enterprises). Moreover, the three Counties mentioned above have fast economic growth with elaborate connections and proper infrastructure such as the Kisumu-Sirare highway, which intersects both the three Counties, and this has motivated the SMEs activities. In addition, these counties are cosmopolitan with synonymous, sensible government policy, diversified economy, and innovation ecosystem of upcoming businesses, international companies, Universities, Polytechnics and TVET institutions which provided a better/more conducive environment for business opportunities for Kenyan's Citizens. To mention further, there are less studies relating to the current one done in this region. Additionally, the highest population in Kenya resides in the rural areas Nyanza Region inclusive, (CRA, 2017, 2019). This study was limited to SMEs in Nyanza Region; Kenya randomly selected from only registered SMEs.

2.0 LITERATURE REVIEW

2.1 Theoretical Framework

Schumpeter's Theory of Innovation, formulated by Joseph Schumpeter in the early 20th century, provides a critical framework for analyzing the interplay between entrepreneurship, innovation, and economic growth. As a pioneering figure in the field, Schumpeter argued that innovation—characterized by the emergence of new products, production techniques, markets, and organizational structures—is the fundamental force behind economic transformation and the progression of capitalism (Schumpeter, 1943). Schumpeter posits that the entrepreneur is pivotal in altering market equilibrium via innovation, leading to "creative destruction," where obsolete methods are supplanted by more effective alternatives. This disturbance results in economic cycles and variations in investment, yet ultimately drives sustained growth over the long term. The concept highlights that creativity emerges from the economic framework, propelled by individuals or companies pursuing profit through new ideas and technological progress (Schumpeter, 2005; Schumpeter, 2006). Within the framework of this investigation into the influence of product innovation strategies on the financial outcomes of small and medium enterprises in the Nyanza Region of Kenya, the theory proposed by Schumpeter holds

Research Bridge Publisher, International Journal of Innovations and Interdisciplinary Research, Vol.3, Issue 1, pp: (15-32), Month: January-December 2025, Available at: <https://researchbridgepublisher.com/> significant importance, as it corresponds with the idea that innovation fosters enhanced competitiveness, market growth, and profitability, all of which are essential for the sustainability and development of small and medium enterprises. The framework elucidates how innovative small and medium-sized enterprises can attain exceptional financial outcomes by distinguishing their products and proactively addressing market needs. Furthermore, the idea of technological evolution and the spread of new innovations, which illustrates how novel products and practices circulate within communities, offers a perspective to investigate why merely a small percentage of SMEs in Kenya (approximately 20%) participate in product innovation, even though its financial advantages are well-established (Mugisha & Kahiigi, 2023; Ochieng et al., 2023). Nonetheless, Schumpeter's theory has encountered criticism. Vishnu and Chandrada (2012) contend that the theory romanticizes the entrepreneur's role and fails to sufficiently consider the systemic, environmental, or institutional elements that also influence innovation. Godin (2008) argues that Schumpeter failed to adequately investigate the necessary conditions or facilitators of innovation, including factors like access to finance, education, or regulatory frameworks. Furthermore, although Schumpeter and Emil Lederer (1926) recognized the dynamic and innovation-oriented nature of capitalist economies, they failed to fully grasp the intricacies of contemporary oligopolistic enterprises and the frameworks of corporate governance (Allgoewer, 2003; Bondi, 2010). Notwithstanding these criticisms, Schumpeter's framework continues to be profoundly relevant to this analysis. This offers a robust theoretical basis for exploring the impact of product innovation on the financial outcomes of SMEs within the dynamic economic landscape of the Nyanza Region. The emphasis on entrepreneurship, innovation, and profitability provides significant explanatory strength and strategic perspectives, especially in an area where small and medium-sized enterprises encounter systemic obstacles and elevated failure rates stemming from restricted innovation uptake. Therefore, despite its constraints, Schumpeter's Theory of Innovation continues to serve as a pertinent and enlightening framework for comprehending and examining the dynamics of small and medium-sized enterprises' growth and competitiveness via innovation.

2.2 Conceptual framework

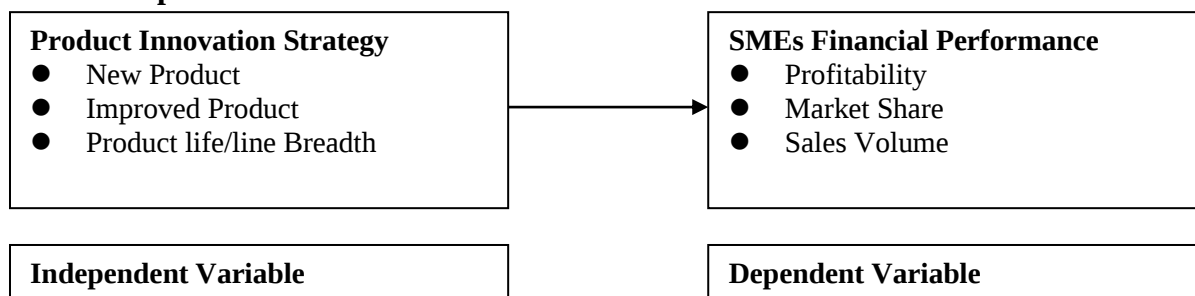


Figure 1: Conceptual Framework

2.3 Empirical Review

In Ghana, Forkuoh, Osei, Shao, and Ansah (2016) realized that PI and SMEs financial performance depends on product innovation. The study used firm-level data and a question model, again the study was based on three groupings: developing a new product, introducing a new product and improving an existing product. Further, the research used survey techniques to gather data and analyzing through principal and factor analysis, the study was positive and significant. In Lagos State, Nigeria. Kesinro *et al.*, (2016) carried out a study on the entrepreneurial marketing and SMEs performance. The findings of this study revealed that there was significant relationship between entrepreneurial marketing and organizational performance of SMEs.

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Adewale, Adesola and Oyewale, (2013), studied the Impact of Marketing Strategies on Business Performance of Selected Small and Medium Enterprises (SMEs) in Oluyole Local Government, Ibadan, Nigeria, the results showed that Product innovation, Promotion, Place, Price, Packaging and after sales service, were significant joint predictors of business performance in terms of profitability, market share, return on investment, and expansion. Nevertheless, Ebitu and Tom, (2016) conducted a similar study on marketing strategies and performance of small and medium enterprises in Akwa Ibom State Nigeria and the study revealed that there is a significant impact of product quality strategy and relationship marketing strategy on the profitability and increased market share of SMEs in Akwa Ibom State, this was a case of Nigeria.

Kawira (2021) conducted a study on product/service innovation in Tharaka Nithi County- Kenya; the study employed random sampling and stratified techniques. The study population was 8,526, and 368 respondents (owners/managers) were supplied with questionnaires. The study realized that product/service innovation significantly enhances the performance of MSMEs in Kenya. Kiiru, Mukulu and Ngatia (2023), studied Innovativeness and Performance: Evidence from Kenyan SMEs. The study majorly explored how innovation affects Kenyan enterprise performance. The study employed analytical technique, the research realized that innovativeness has a positive and significant impact on company performance. The study further mentioned that in order for SMEs to thrive and succeed in the market, the managers and owners should be advised to foster innovative culture.

A study which was done by Kithinji and Misuko, (2022) on the Effect of Innovative Strategies on the Performance of Small and Medium Enterprises in Nairobi County, Kenya. The study employed descriptive research design, results show that product innovation and organizational performance of SMEs is positively and significantly related. Further, the results indicated that marketing, process innovation and organizational performance of SMEs is positively and significantly related. Waithaka, Muturi and Nyabuto (2014), studied the effects of marketing strategies on the growth of small businesses in Kenya, and found out that use of various marketing strategies affects the growth of small businesses.

Mwangi and Bwisa (2014), studied the effects of Entrepreneurial marketing practices on the growth of Hair Salons in Kiambu town, the study determined that there is relationship between the Entrepreneurial marketing practices and the growth of the hair salons attributed by innovativeness of SMEs who are saloon owners. Bicaciogiu-Peynirci *et al.*, (2019) conducted a study to find out the impact of firm Product innovation activities on the export performance of SMEs. The research noted a significant positive relationship between the product innovativeness of the company and export performance.

Gabriel (2019) studied innovativeness, risk-taking, and pro-activeness in start-ups: a case study and conceptual development in India. The study purported that a firm's innovativeness reflects a firm's tendency to embrace new technologies or practices and go beyond the current state of the art. Osano, (2019) studied Global expansion of SMEs: role of global market strategy for Kenyan SMEs, the study realized that innovative marketing and performance of SMEs and the study purported that there is a positive relationship between innovation and SMEs performance.

Moreover, the results of this study revealed there is positive relationship between service innovation practices and business performance and noted that (profit growth/maximization, organizational competitiveness, and organizational reputation influence performance of SMEs. Furthermore, the results of this study affirmed the moderating role of environmental competitiveness on the relationship between service innovation practices and profit growth/maximization, and that there are no moderating effects on organizational competitiveness and organizational reputation, (Venkatraman & Ramanujam, 2016).

Research Bridge Publisher, International Journal of Innovations and Interdisciplinary Research, Vol.3, Issue 1, pp: (15-32), Month: January-December 2025, Available at: <https://researchbridgepublisher.com/> Lastly, the results of this study revealed that environmental dynamism does not have moderating effects on the relationship between service innovation practices and business performance (profit growth/maximization, organizational competitiveness, and organizational reputation. Venkatraman and Ramanujam (2016), Effect of Product Innovations on Performance of small and medium manufacturing enterprises in Nairobi County, Kenya noted that the importance of firm performance can be seen from theoretical, empirical and managerial lenses. The theoretical lens focuses on the effectiveness of strategies that influence the level of performance they cause while the practical lens brings to light the various constructs that have been utilized to capture performance. According Sije, (2017), noted that SMEs enhance competition and entrepreneurship hence having external benefits on economy wide efficiency, innovation and aggregate productivity. Kawira, (2021), mentioned that SMEs have become significantly internationalized and when they can be adequately trained, they can improve that given country's economy thus good performance

3.0 RESEARCH METHODOLOGY

The study on the effect of product innovation practices on the financial performance of small and medium-sized enterprises (SMEs) in Kenya's Nyanza Region employed a cross-sectional research design to establish associations between variables (Kothari, 2014; Orodho, 2009; Kothari & Garg, 2019). A positivist research philosophy guided the inquiry, focusing on objective, observable data (Paranas et al., 2018). The target population consisted of 6,606 registered SMEs (Saunders et al., 2016; Cooper & Schindler, 2014), with a sample size of 364 determined through Krejcie and Morgan's (1970) formula. A simple random sampling technique ensured representation from Nyamira, Kisii, and Migori counties (Kothari & Garg, 2019; Uppal et al., 2014). Data collection relied on questionnaires, structured interviews, and observations (Kothari & Garg, 2014; Privitera, 2016), and a pilot study involving 36 SMEs tested reliability and validity (Fatoki, 2019; Kothari, 2019). Reliability was measured via Cronbach's alpha (Saunders et al., 2016), and validity was confirmed through content and construct approaches using the KMO and Bartlett's tests (Pituch & Stevens, 2016; Taherdoost, 2016). Data were processed using SPSS v29, with descriptive and inferential statistics applied (Uppal et al., 2014). Diagnostic tests included linearity, homoscedasticity, heteroscedasticity, multicollinearity (Gujarati & Porter, 2010), autocorrelation via the Durbin-Watson test (Gujarati, 2009), and normality through Q-Q plots (Rayson, 2016). Hypotheses were tested using t-tests at a 95% confidence level (Kothari & Garg, 2019), and multivariate regression analysis assessed the impact of product innovation and other variables like pricing and customer satisfaction on SME performance (Gujarati & Porter, 2010). Variables were operationalized using Likert scales, with performance measured through profitability, sales turnover, and market share (Kothari & Garg, 2014).

4.0 RESULTS AND DISCUSSIONS

4.1 Response Rate

The determined sample for this study was 360 respondents proportionally spread across the three counties of study, which were: Migori, Kisii and Nyamira. The response rates were as represented in table 4.1 below.

Table 4.1: Response Rate

Response	Respondents	Percentage
Returned	320	88.8
Not Returned	40	11.2
Total Distributed	360	100

Table 4.1 summarizes the survey outcomes, revealing that 88.8% of the distributed surveys were returned (320), indicating a high level of engagement. Conversely, 11.2% (40) were not returned.

Research Bridge Publisher, International Journal of Innovations and Interdisciplinary Research, Vol.3, Issue 1, pp: (15-32), Month: January-December 2025, Available at: <https://researchbridgepublisher.com/> With a total of 360 surveys distributed, this data underscores the study's comprehensive nature. A robust response rate enhances the credibility of findings, reflecting active participant involvement and providing a solid foundation for subsequent analysis and interpretation. Kothari (2007) deems a response rate of 50% acceptable, with 60% considered good, 70% very good, and above 80% excellent. Saunders et al., (2003) find 30-50% reasonable for statistical generalizations. Babbie and Benaquisto (2009) consider 50% adequate, while Bailey (1987) suggests 75% as adequate. Mugenda (2008) labels 50% as adequate, 60% as good, and above 70% as very good. Thus, the study's response rate of 88.8% is excellent for further data analysis

4.2 Descriptive statistics

4.2.1 Descriptive Analysis of Product Innovation Practices and their impact on the Financial Performance of Small and Medium Enterprises in Nyanza Region;Kenya.

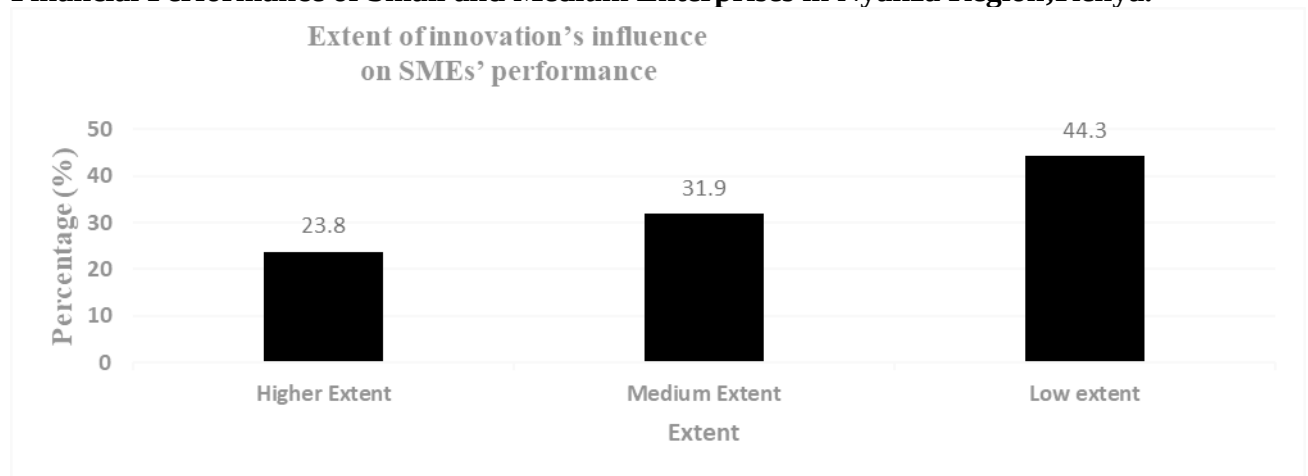


Figure 4.1 Extent of product innovation's influence on SMEs financial performance.

In Figure 4.1, The significant portion of respondents (44.3%) perceives product innovation as exerting a low influence on SME performance, while 31.9% indicate a moderate impact, and 23.8% attribute a higher level of influence. These findings underscore the varied perceptions among SMEs regarding the importance of product innovation for their performance. Understanding these nuances is crucial for devising targeted strategies to enhance innovation adoption and maximize its implications on SME growth and competitiveness.

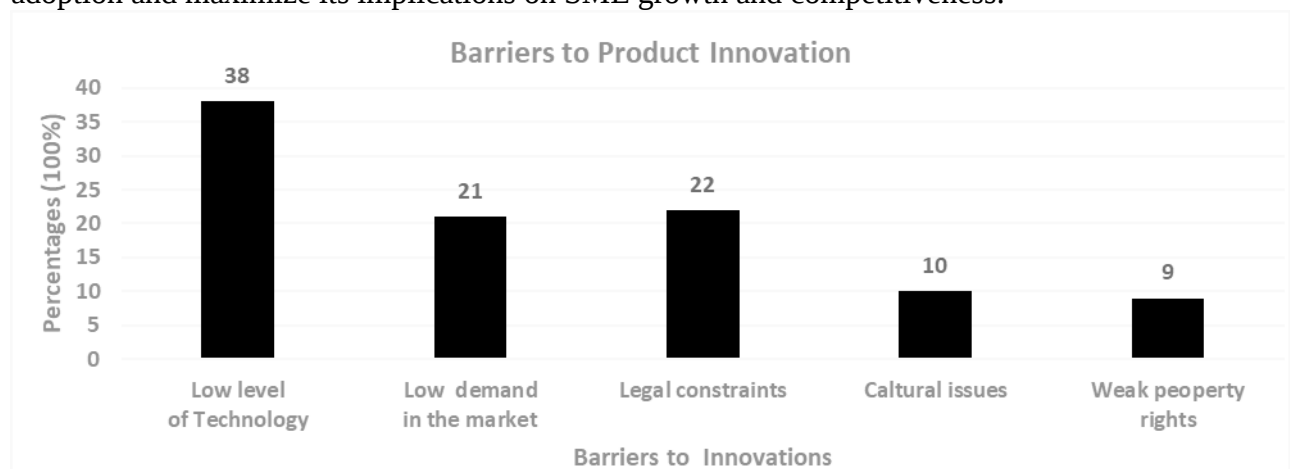


Figure 4.2: Barriers to Product Innovation

Figure 4.2 Illustrates the primary barriers that hinder the adoption of product innovation. Among the respondents, 38% cited limited technology access, 21% indicated low market demand, 22% faced legal constraints, 10% encountered cultural barriers, and 9% struggled with weak property

Research Bridge Publisher, International Journal of Innovations and Interdisciplinary Research, Vol.3, Issue 1, pp: (15-32), Month: January-December 2025, Available at: <https://researchbridgepublisher.com/> rights. These findings shed light on the multifaceted challenges that impede innovation in SMEs. Addressing these barriers is imperative to foster a conducive environment for innovation, which, can unlock opportunities for business growth, enhance competitiveness, and drive sustainable development in the SME sector.

Table 4.2 Product Innovation Practices and SMEs Financial Performance

Items	SD (%)	D (%)	N (%)	A (%)	SA (%)	Mean	σ SDV
I am familiar with innovation in new products.	2.2	2.2	20.6	42.2	30.3	3.91	1.01
A newly innovated product may not always be essential for enterprise performance.	4.4	2.8	31.9	40.6	20.3	3.7	0.97
Newly innovated products can be a crucial source of enterprise profit and performance.	2.8	4.7	35	27.2	30.3	3.78	1.02
Improved products may not always be the best option for small and medium enterprises' performance.	6.6	27.2	30.6	20.3	15	3.09	1.16
Improving a product can be a waste of resources and may result in poor enterprise performance.	13.4	23.8	25.9	17.8	19.1	3.05	1.31
Improving products generally has a positive impact on the performance of small and medium enterprises.	10	5.9	27.2	32.2	24.7	3.56	1.21
Product breadth does not affect my enterprise's performance in any way.	25.9	30	15.3	18.4	10.3	2.57	1.33
The breadth of your product can impact your monthly output and general performance in your business enterprise.	10	10.3	25.6	36.6	17.5	3.41	1.18

Note: N=320, SD=Strongly Disagree, D=Disagree, N=Neutral, A=Agree, SA=Strongly Agree. The survey findings in Table 4.2 on product innovation practices and their impact on SME performance reveal varying perceptions among the respondents. While a significant majority demonstrates familiarity with innovation in new products (A 42.2%, SA 30.3%, high perception), there is a divided opinion regarding its necessity for enterprise performance, with a notable portion expressing skepticism (D 31.9%, SA 40.6%, high perception). Conversely, many respondents perceive newly innovated products as crucial sources of enterprise profit and performance (A 35%, SA 27.2%, high perception). However, there is a substantial division regarding the effectiveness of product improvement, with a significant percentage questioning its benefits (D 27.2%, A 32.2%, SA 24.7%, high perception) while others perceive it positively (A 20.3%, SA 17.8%, low perception). Additionally, respondents hold contrasting views on the influence of product breadth, with a majority dismissing its significance (SD 25.9%, N 30%, low perception) while others recognize its potential impact on enterprise output and performance (A 36.6%, SA 17.5%, high

Research Bridge Publisher, International Journal of Innovations and Interdisciplinary Research, Vol.3, Issue 1, pp: (15-32), Month: January-December 2025, Available at: <https://researchbridgepublisher.com/perception>). These findings underscore the nuanced perspectives surrounding product innovation practices and their implications for SME performance, highlighting the need for tailored approaches to address these varied perceptions effectively.

The responses regarding product innovation practices have significant implications for the overall study and are multifaceted. Firstly, the perceptions among the respondents indicate that attitudes towards product innovation within the SME sector are complex. While most respondents acknowledge the importance of innovation in new products as a crucial source of enterprise profit and performance, a notable segment questions the necessity and effectiveness of these innovations. This suggests that SMEs in Kenya operate within a diverse landscape where attitudes towards innovation may differ based on industry, organizational culture, and market positioning. Moreover, the differing views on the effectiveness of product improvement highlight the need for nuanced strategies in addressing the challenges and opportunities associated with enhancing product offerings within SMEs. While some respondents perceive product improvement positively, others express skepticism, indicating potential barriers to adopting and implementing innovative practices. Understanding these divergent perspectives is essential for developing targeted interventions that resonate with the specific needs and preferences of SMEs across different sectors.

Additionally, the contrasting opinions on the influence of product breadth emphasize the importance of considering the broader context in which SMEs operate. While some respondents recognize the potential impact of product breadth on enterprise output and performance, others dismiss its significance. This suggests that factors such as market dynamics, competitive pressures, and resource constraints may shape SMEs' perception of the role of product breadth in driving business success. The findings align with a study conducted by Njiraini *et al.*, (2018), which concluded that while there were no statistically significant differences in the growth performance of innovative and non-innovative MSEs, the innovative MSEs exhibited higher growth performance in terms of both employment and sales compared to non-innovative MSEs. This highlights the importance of product innovation in improving the survival and success of businesses.

4.2.2 Descriptive Statistics of SME Financial Performance

Table 4.3 (a) Descriptive Statistics of SME Financial Performance

Item	Responses	Total (N)	Frequency (%)
Describe your enterprise performance in the last (5) years:	Growing	241	75.3
	Breaking-even	36	11.3
	Declining	9	2.8
	Exceedingly-growing	34	10.6
Which of the most significant impact on your performance?	Product innovation	18	5.6
	Product pricing	72	22.5
	Customer satisfaction	142	44.4
	Product promotion	52	16.3
	All the above	36	11.3

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To what extent do these EMPS influence the performance of SME	Large	53	16.6
	Very-large	90	28.1
	Moderate	177	55.3
What is your daily sales volume in Ksh?	Below-5000	202	63.1
	6000-9000	63	19.7
	10000-20000	36	11.3
	21000-30000	3	0.9
	Above 40000	16	5
What is your estimated monthly profit level in Ksh?	Below-5000	126	39.4
	6000-9000	114	35.6
	10000-20000	53	16.6
	21000-30000	9	2.8
	Above 40000	18	5.6
Total		320	100

The descriptive statistics from Table 4.3 (a) provide insights into SME performance and its influencing factors. The majority of SMEs in Kenya experienced growth over the past five years, with 75.3% showing growth and 10.6% experiencing exceptionally strong performance. In contrast, only 2.8% reported declining performance, indicating an overall positive trend despite some enterprises facing challenges. Customer satisfaction emerged as the most significant factor, with 44.4% attributing their success to it, emphasizing the importance of meeting customers' needs. Additionally, 22.5% cited product pricing as crucial, highlighting the significance of strategic pricing management for SMEs.

Concerning entrepreneurship marketing practices (EMPs), a substantial number of SMEs believe they impact performance, with 55.3% perceiving a moderate influence and 28.1% perceiving a significant one. The distribution of daily sales and monthly profit levels underscores the diverse landscape within the sector. With 63.1% reporting daily sales below Ksh 5000 and 39.4% estimating monthly profits below the same threshold, many SMEs operate at relatively low levels, suggesting challenges in revenue generation and profitability. These trends prompt a critical examination of marketing approaches, indicating potential inefficiencies or gaps that SMEs need to address to enhance their sales performance. By prioritizing strategies like customer engagement and targeted advertising, SMEs can improve their competitiveness and achieve sustainable growth in Kenya's dynamic business environment.

Table 4.4 (b) Descriptive Statistics of SME Performance

Items	SD (%)	D (%)	N (%)	A (%)	SA (%)	Mean	σ SD V
The profit my enterprise generates is because of entrepreneurship marketing practices I adopt and employee	15.6	9.4	23.8	31.3	20	4	0.95

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The profit of my enterprise is not solely based on entrepreneurship marketing practices.	14.4	31.3	23.1	17.5	13.8	3.87	0.89
My enterprise performs well due to the daily profits I make.	2.8	1.3	32.2	34.7	29.1	3.86	0.95
My market share is always low due to the EMP I use in my enterprise, but it no longer affects or influences my performance.	15.6	23.8	20	31.3	9.4	3.84	0.91
My business/enterprise performance is exceeding my expectations and growing every day due to my increasing market share.	9.4	17.5	31.3	23.8	18.8	3.93	0.89
My business/enterprise performance cannot be linked to my market share.	26.6	24.4	30.3	9.4	9.4	3.97	0.84
My enterprise performance is surely due to my sales volume.	9.4	14.4	19.7	35	21.6	3.99	0.81
Sales volume is not necessary for my performance	23.8	24.4	30.3	12.2	9.4	3.96	0.81
I rarely check whether the performance margin of my enterprise depends upon my sales volume	29.1	23.8	21.6	17.5	8.8	3.93	0.97

Note: N=320, SD=Strongly Disagree, D=Disagree, N=Neutral, A=Agree, SA=Strongly Agree, Decision-Weighted Average= 3.92

The survey findings in Table 4.4 (b) on SME performance perceptions indicate that respondents strongly believe in the significance of entrepreneurship marketing practices for generating profits (A 31.3%, SA 20%, high perception), suggesting a direct correlation between these practices and enterprise success. While some acknowledge other factors contributing to profits (D 31.3%, SA 17.5%, low perception), many attribute their enterprise's performance to daily profits (A 34.7%, SA 29.1%, high perception), regardless of market share impact. There is a prevailing sentiment that performance exceeds expectations due to increasing market share (A 31.3%, SA 23.8%, high perception), although others perceive market share as unrelated to performance (SA 9.4%, high perception). Similarly, confidence in sales volume drives enterprise performance (A 35%, SA 21.6%, high perception), despite a minority considering it unnecessary (D 30.3%, SA 9.4%, high perception). The findings highlight varying perceptions regarding the determinants of SME performance, emphasizing the multifaceted nature of success factors within entrepreneurship contexts.

These findings highlight the diverse perspectives among SME owners regarding the drivers of performance. Although many recognize the importance of entrepreneurship marketing practices, daily profits, increasing market share, and sales volume in achieving success, there are differing opinions on the relative significance of these factors. This highlights the complexity of SME performance determinants and the need for a nuanced understanding of the interplay between various factors. Tailored strategies that acknowledge these diverse perceptions are essential for effectively addressing the unique challenges and opportunities faced by SMEs. Moreover, fostering awareness and education on the multifaceted nature of performance drivers can empower

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SME owners to make informed decisions and adopt holistic approaches to enhance their business outcomes.

Overall findings emphasize the importance of flexibility and adaptability in navigating the dynamic landscape of SME financial performance. These findings align with a study conducted by Ouragini and Lakhali (2023), demonstrating a positive association between overall firm performance and various Entrepreneurship Marketing dimensions. Factors such as customer focus, pro-activeness, innovativeness, and opportunity focus were found to significantly enhance performance. Embracing and integrating these dimensions into business strategies can lead to improved business outcomes and sustained success. Thus, understanding and effectively implementing these Entrepreneurship Marketing dimensions are crucial steps for businesses aiming to thrive in competitive market.

4.3 Inferential Statistics

4.3.1 Regression model for Product Innovation

The regression analysis conducted sought to uncover the impact of product innovation on the financial performance of SMEs in Nyanza Region; Kenya. By evaluating various metrics and statistical relationships, this analysis provides insights into how innovative strategies influence financial outcomes for these enterprises. The results, as depicted in Table 4.13, offer a comprehensive overview of the correlation between product innovation efforts and financial success, aiding in a deeper understanding of their interdependence within the Kenyan context.

Table 4.5: Regression Model for Product Innovation

MODEL SUMMARY					
Model	R	R Square	Adjusted Square	Std. Error of the Estimate	Durbin-Watson
1	0.65 ^a	0.423	0.421	0.677	1.209

The model summary provided several key metrics indicating the relationship between product innovation and financial performance of small and medium enterprises in Nyanza Region; Kenya. The correlation coefficient (R) was 0.465, suggesting a moderate positive relationship between these variables. The R Square (R^2) value of 0.423 revealed that approximately 42.3% of the variance in financial performance of small and medium enterprises in Nyanza Region; Kenya could be attributed to product innovation.

The adjusted R Square, which was 0.423, was very close to the R^2 value, indicating that the model did not suffer from over-fitting and that product innovation reliably explained the variance in financial performance of small and medium enterprises in Nyanza Region; Kenya. The standard error of the estimate, 0.677, showed the average distance that the observed values fell from the regression line, with smaller values indicating a better fit.

Table 4.6: ANOVA for Product Innovation

ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.561	1	3.561	88.238	.000 ^b
	Residual	12.833	318	.040		
	Total	16.393	319			

The ANOVA table above supported the model's significance. The regression sum of squares was 3.561, representing the variance explained by the model, while the residual sum of squares was 12.833, representing the variance not explained by the model. The degrees of freedom (df) for the

Research Bridge Publisher, International Journal of Innovations and Interdisciplinary Research, Vol.3, Issue 1, pp: (15-32), Month: January-December 2025, Available at: <https://researchbridgepublisher.com/> regression was 1, indicating one predictor, and the residual df was 318. The mean square for the regression and the residual were 3.561 and 0.040, respectively, calculated by dividing the sum of squares by their respective df. The F-statistic was 88.238, indicating that the model significantly explained the variance in the dependent variable. The p-value was 0.000, which meant the model was statistically significant ($p < 0.05$).

Table 4.7: Coefficient for Product Innovation

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. E	Beta			Tolerance	VIF
(Constant)	2.986	.085		35.333	.000		
Product innovation	.210	.022	.466	9.394	.000	1.000	1.000

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Product innovation

The coefficient table further detailed the contributions of each predictor. The unstandardized coefficient (B) for the constant was 2.986, representing the intercept, or the predicted value of financial performance of small and medium enterprises in Nyanza Region; Kenya when product innovation was zero. The unstandardized coefficient for product innovation was 0.210, suggesting that for each unit increase in product innovation, financial performance of small and medium enterprises in Nyanza Region; Kenya was expected to increase by 0.210 units. The standardized coefficient (Beta) for product innovation was 0.466, indicating the strength and direction of the relationship.

The t-value for product innovation was 9.394, testing whether the coefficient was significantly different from zero, and the p-value for product innovation was 0.000, showing a significant effect ($p < 0.05$). The equation for the regression model without the product innovation moderator was as follows:

$$\text{Financial performance} = 2.986 + 0.210 * \text{Product Innovation}.$$

In summary, the regression model revealed a moderate positive relationship between product innovation and financial performance of small and medium enterprises in Nyanza Region; Kenya, explaining about 42.3% of the variance. The model was statistically significant

5.0 CONCLUSION AND RECOMMENDATION OF THE STUDY

5.1 Conclusion of the study

Based on the study's findings, it can be concluded that product innovation practice significantly influences the financial performance of small and medium-sized enterprises (SMEs) in Nyanza Region, Kenya. The regression analysis revealed a strong and statistically significant relationship between product innovation and SME performance, with a coefficient of determination (R^2) of 0.423, indicating that approximately 42.3% of the variation in financial performance can be explained by product innovation strategies. This finding aligns with prior research, such as Mugisha and Kahiigi (2023), who noted that 65% of innovative SMEs reported improved market share, while those that did not innovate experienced a 20% drop in customer retention. The study established that SMEs engaging in the development of new products, enhancement of existing products, and diversification of product lines experienced better profitability, increased sales turnover, and expanded market share. Respondents generally agreed that product innovation improved their business output, despite varied perceptions about its necessity. Challenges such as limited access to technology (38%), low market demand (21%), legal barriers (22%), and weak intellectual property protection (9%) were identified as major obstacles to innovation. These

Research Bridge Publisher, International Journal of Innovations and Interdisciplinary Research, Vol.3, Issue 1, pp: (15-32), Month: January-December 2025, Available at: <https://researchbridgepublisher.com/> constraints hinder the full exploitation of innovation benefits and underline the need for comprehensive support mechanisms.

5.2 Recommendation of the Study

Based on these insights, the study recommends that SME owners and managers should prioritize product innovation by fostering a culture of creativity and allocating resources to research and development. Additionally, policy-makers should design targeted innovation support programs, such as tax incentives, subsidized innovation hubs, and technical training, to bridge the capacity gap, particularly in under-resourced areas like Nyanza. There is also a need for collaboration between SMEs and institutions of higher learning, including polytechnics and universities, to facilitate technology transfer and innovation diffusion. Financial institutions should tailor credit products to innovation-driven SMEs to reduce financial barriers. Moreover, government agencies must enforce and simplify intellectual property rights protection to encourage original innovations.

5.3 Area for Further Study

Lastly, for future research, it is recommended that scholars expand the scope to include a longitudinal approach and explore how other dimensions of entrepreneurial marketing—such as pricing, promotion, and customer relationship strategies—interact with product innovation to influence SME performance. Further studies should also assess how external factors like inflation, market turbulence, and technological change moderate the innovation-performance relationship, especially using structural equation modeling (SEM) or panel data methods. Additionally, researchers could explore gendered or sector-specific dynamics of innovation adoption among SMEs, given the potential for differential impact. These future inquiries would deepen understanding and contribute to more nuanced policy interventions.

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