



**ENTREPRENEURIAL COMPETENCIES AND FINANCIAL PERFORMANCE OF SMALL AND MICRO ENTERPRISES
(A CASE OF SMEs AT THE MUTHURWA MARKET IN NAIROBI)**

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ABSTRACT

Entrepreneurial competencies have a profound role in the performance of an entrepreneur's business, especially with regards to SMEs. This research aimed at finding out the effects of entrepreneurial competencies on the financial performance of SMEs. The aspects of entrepreneurial competencies looked at were; creativity and innovation, risk taking, motivation and entrepreneurial leadership. The study was guided by three theories: the resource-based theory, the competency-base theory and the expectancy theory. The research used a quantitative descriptive survey design. The target population was 2,800 SMEs in Muthurwa Market in Nairobi. A sample of 375 SMEs was selected using Krejcie & Morgan (1970) sampling formula. The researcher collected data using questionnaire and interview guides. The data collected was coded and analyzed using the SPSS software. The relationship between the independent and the dependent variables was established using the Pearson's Moment Correlation Coefficient. The analyzed data was presented using frequency tables, charts, percentages. The findings of the study revealed that: creativity and innovation had a significant positive relationship with financial performance; motivation had an insignificant positive relationship with financial performance; risk-taking had a significant positive relationship with financial performance, and lastly; entrepreneurial leadership had an insignificant relationship with financial performance. The study recommended that studies based on this topic could use higher statistical tools to measures relationship between the independent and the dependent variables like regression analysis.

Keywords: *Entrepreneurial Competencies, Creativity and Innovation, Motivation, Risk-Taking, Entrepreneurial Leadership, Financial Performance*

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INTRODUCTION

Katz and Green (2011) posit that, successful individual entrepreneurship builds on competency more than personality. They refer to competencies as specific types of business-related expertise. The authors highlight the different competencies in entrepreneurship. They are: key business functions, industry specific knowledge, resource competencies and determination competencies. To them the intention of the entrepreneur reflects his determination to start a business and make it successful. They label the skills that are determination-driven as determination competencies. To them, these skills are demonstrated by focusing on the entrepreneur's business and ignoring other choices and doing all it takes to pursue opportunities that will get the business going. Tittel and Terzidis (2020) examined entrepreneurial competences revised; focusing on developing a consolidated and categorized list of entrepreneurial competences. The study concluded that domain competence, personal and social competences are appropriate categories for competence. According to Elger (2019), to perform is to take a complex series of actions that integrate skills and knowledge to produce a valuable result. He notes that, depending on the circumstance, the performer may be an individual, or a collection of people who are collaborating such as an academic department, research team, committee, student team, or a university. He adds that performance is a journey and not a destination and as such we should talk of 'level of performance'.

Majority of the players in the retail industry operate as Small and Micro Enterprises (SMEs). They form the largest percentage of business enterprises and contribute an overwhelming output to the GDP of most of the economies in Africa, and even the world at large. Katz and Green (2011) explain that, Small and Micro Enterprises have between 1 to 50 people. Barazandeh et al s (2015) in a research investigated the effect of entrepreneurial competencies on business performance among early-stage entrepreneurs. The

study revealed a positive relationship between entrepreneurial competencies and business performance and that there is a positive effect between entrepreneurial social norms on entrepreneurs' competencies.

Problem Statement

Entrepreneurial competencies positively affect performance of businesses. Many studies carried out have attested to this fact. A research conducted by Sungkawati (2019) on the impact of entrepreneurship competence on business performance in Indonesia revealed that, Micro enterprises require entrepreneurial competencies. Sajilan et al (2016) study revealed that very few of the SMEs were successful, a large percentage operating at the survival stage and others at the fringe of collapsing, because they lacked entrepreneurial competencies. This entails that, entrepreneurial competencies are a strong booster to performance. However, the reality of the performance of SMEs on the ground tells a different story. SMEs do face a lot of challenges and their performance is seriously affected in different parts of the world and in Kenya in particular. According Onyango (2017), SMEs are hindered by inadequate capital, limited market access, poor infrastructure, inadequate knowledge and skills and rapid changes in technology. Corruption and other unfavourable regulatory environments present other bottlenecks to this vital cog of the economy. Obudho (2017) indicated that approximately 400,000 Micro, Small and Medium Enterprises do not celebrate their second birthday; very few reach their fifth birthday, leading to concerns of sustainability of this critical sector. This tells us unequivocally that many SMEs fail in Kenya like in most of the areas in the world. Therefore, considering the challenges faced by SMEs and the high failure rate, the question this research was poised to answer was to find out the effects of entrepreneurial competencies on the financial performance of SMEs in the retail industry taking the case of SMEs in the Muthurwa Market in Nairobi.

Objectives of the Study

- To examine the relationship between innovation and the financial performance of Small and Micro Enterprises in the retail industry.
- To determine the relationship between risk taking and the financial performance of Small and Micro Enterprises in the retail industry.
- To establish the relationship between motivation and financial performance of Small and Micro Enterprises in the retail industry.
- To evaluate the relationship between entrepreneurial leadership and the financial performance of Small and Micro Enterprises in the retail industry.

LITERATURE REVIEW

Theoretical Framework

The study was guided by three theories: the resource-based theory, the competency-base theory and the expectancy theory. Wickham (2006) brings out the arguments of the resource-base and

the competency-base theories. The resource-based theory argues that there is a resource mix that gives firms a higher performance over their rivals. Firms therefore must maintain a unique resource base of resource bundle and protect it from imitation by competitors. Entrepreneurial competencies are resources which the firm can make a suitable mix of them to create a resource bundle that will enable the firm to achieve high performance. Another theory is the competency-base theory. Its main tenets are that the firm must develop a core competence that will enable it continuously come up with new products that will surprise the competitors and keep it ahead of its rivals. Agarwal (2011) pinpoints the tenets of the expectancy theory as a theory which underlies performance. According to this theory, the behaviour of individuals in the organization is based on anticipated satisfaction of valued goals that they have set for themselves and they keep adjusting their behaviour in the direction that will help them attain those set goals.

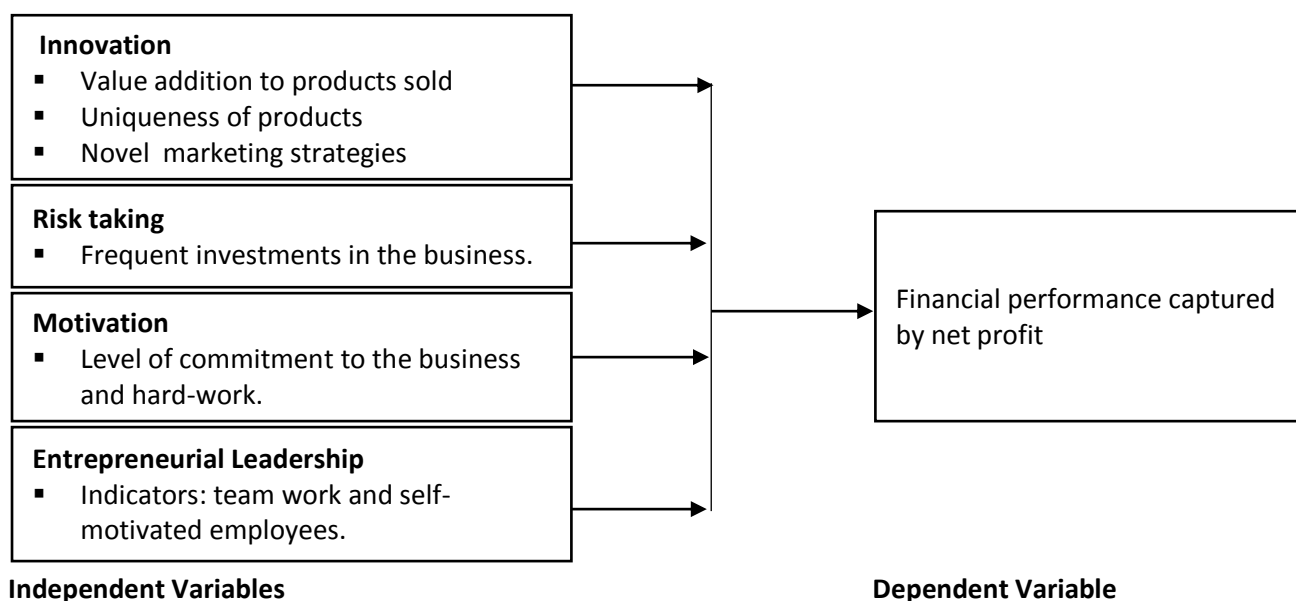


Figure 1: Conceptual Framework

Source: Adapted from: Nyoike, W. E. (2018). Ph.D Dissertation.

The independent variable of the study was entrepreneurial competencies while the dependent variable is the financial performance of SMEs. Entrepreneurial competencies affect performance of Small and Micro Enterprises. If the entrepreneur

possesses entrepreneurial competencies, the SME is likely to record good performance, and if he doesn't possess them, the SME is likely to fail or perform poorly. Creativity and innovation bring about differentiation and competitive advantage to

the SME in question and therefore sets it ahead of its competitors which guarantees positive performance. An entrepreneur who is motivated, possess leadership skills, and is ready to take risk is likely to perform well in business more than the entrepreneur who is not creative and innovative, not persistent, lacks leadership skills and not ready to take risk.

Review of Empirical Review

Innovation and Financial Performance

According to Lee-Ross and Lashley (2009), creativity and innovation are used interchangeably as if they are synonyms; however, there is a difference between them. Innovation is concerned about bringing a creative idea into actualization. According to these authors, creativity is the antecedent of innovation. Creativity and innovation as entrepreneurial features have been largely employed in the retail industry especially among the small and micro enterprises. In Malaysia, Osman et al (2016) studied the relationship between innovation and employee performance in Kuala Lumpur. The results of the study showed that production innovation, process innovation, technological and organizational motivation influenced employee performance. Attitude on the other hand was found not to influence employee performance. Tetteh and Essegbey (2014) conducted a study on firm level innovation using the case of Ghanaian firms. The findings of the study noted that most of the employees with a university degree were employed by large multinational firms and medium firms that are part of a large group. Nyoike (2018) explored innovation practices and performance of small and medium manufacturing in Kenya. The study concluded that commercialization, organizational structure, research and development, and creativity were all significant predictors of SMMEs performance

Risk-taking and Financial Performance

Kuratko (2009) indicates that, starting or buying a business involves risk. The higher the rewards, the higher the risk that the entrepreneur is likely to face. For this reason, entrepreneurs tend to

evaluate risk carefully. The different types of risk entrepreneurs are exposed to include: financial risk, career risk, family and social risk and psychic risk. The ability to take risks allows the entrepreneur to venture into very lucrative opportunities which can bring in tremendous successes to the business. Zichella (2015) examined entrepreneurial behaviour when faced with risk and uncertainty at Copenhagen Business School in Denmark. The study found out that, there were significant differences in the way entrepreneurial -oriented individuals respond to different degrees of risk and uncertainty. In South Africa, Holtzhausen and Naidoo (2016) explored the critical assessment of risk-taking behaviour and economic performance of male entrepreneurs in the Centurion Central Business District. The findings of the research revealed a strong correlation between factors identified from literature and risk-taking behaviour of male entrepreneurs except for the factor of ethnic background. Mburu (2017) carried out a study on risk-taking and firm performance among family-owned enterprises in Nairobi County in Kenya. The study took a descriptive and an exploratory research design. The findings of the study revealed a positive and significant relationship between risk-taking and performance of family-owned enterprises.

Entrepreneur's Motivation and Financial Performance

Wickham (2006) defines motivation as the condition that makes individuals undertake or desire to undertake a course of action. He notes that, management theorists and practitioners have paid great attention to motivation in recent years because of the impact it has on organizational performance. According to Shepherd and Patzelt (2018), motivation is the force that ignites and directs behaviour and exercises persistence of entrepreneurs in a particular course of action. Nabi et al (2017) explored the impact of motivation on employee performances taking a case study of Karmasangsthan Bank Limited in Bangladesh. The results of the study indicated that if employees are

positively motivated, it improves both their effectiveness and efficiency drastically for achieving organizational goals. Uju (2013) studied the influence of motivation on employees' performance in Anambra State in Nigeria. The study concluded that there existed a relationship between extrinsic motivation and the performance of employees while no relationship existed between intrinsic motivation and employee performance. Waiyaki (2017) research on the effect of motivation on employee performance taking a case of PAM Golding Properties Limited in Nairobi, Kenya. The research concluded that the company partially used motivational goal setting to motivate employees; employees were highly dissatisfied with the monetary package provided by the organization; that the company partially used recognition and reward programs but they were not effective in motivating employees to perform.

Entrepreneurial Leadership and financial Performance

In Malaysia, Dastane (2020) studied the impact of leadership styles on employee performance considering the moderating role of gender. The results of the study found a significant positive relationship between transformational, laissez-faire, and democratic leadership styles towards employee performance. Hurduzeu (2015) studied the impact of leadership on organizational performance. The study found that transformational leadership inspires individuals within the organization to work harder and to strive for highest levels of performance. Ibrahim and

Daniel (2019) investigated the impact of leadership on organizational performance in Nigeria. The findings of this study revealed that achievement of organizational goal and objectives depends solely on the leadership style an organization adopts. Anyango (2015) researched on the effects of leadership styles on employee performance at the BOA Kenya Limited. The study concluded that transformational leadership style could have greater effects on employee productivity and quality of performance.

METHODOLOGY

The research used a quantitative descriptive survey design. The researcher in this study targeted owners of SMEs in Muthurwa Market which constituted a total population of 2,800 SMEs. A sample of 375 owners of SMEs was determined using Krejcie & Morgan (1970) sampling formula. The researcher made use of the questionnaire and interview guide as data collection instruments. Data was analyzed using descriptive and inferential statistics and presented in frequency tables, pie charts and bar graphs. The Social Package for Statistical Sciences (SPSS) software was used in the analysis of collected data. Qualitative data was analyzed through direct quotes from the respondent.

FINDINGS

The research aimed at finding out the effects of entrepreneurial competencies on the financial performance of SMEs. Findings are presented as follows;

Table 1: Creativity and Innovation and Financial Performance

Creativity and innovation	SD		D		N		A		SA	
	f	%	f	%	f	%	f	%	f	%
Introducing new features and activities.	9	2	21	6	46	12	180	48	119	32
My business performs better than those of other people around me.	10	3	36	10	86	23	146	39	97	26
I come up with original ideas on how to improve my business.	9	2	15	4	50	13	179	48	121	32
I carry out market research to determine where there are opportunities.	10	3	27	7	51	14	160	43	127	34
I benchmark with successful businesses.	8	2	26	7	55	15	153	41	133	36
I learn new skills to make my business better.	7	2	10	3	40	11	142	38	176	47

Findings in Table 1 showed that 48% of the respondents agreed that they introduced new features and activities to their products and businesses, (39%) agreed that their businesses had superior performance compared to their competitors, (48%) agreed that they conceived original ideas on improving their businesses, (43%) agreed that they identified most of the opportunities in their businesses through market research, (41%) agreed that they benchmarked with successful businesses and (47%) strongly agreed that they engaged in learning new skills to improve on their businesses. The reason why firms strive to be very creative and innovative is because these qualities enable the firm to become very competitive and consequently perform better than

competitors. Firms do conduct market research in order to identify gaps in the market and take advantage of them. This is a common praxis among firms in the business environment. Findings concur with; Kabukcu (2015) that value creation enables businesses to achieve immense success due to its devotedness to creativity and innovation; Gebremeskel (2019) that creativeness and innovation enable the firm to become very competitive and consequently perform better than competitors; Ndemo and Aiko (2016) that when firms find opportunities and take advantage of them through new ideas and improvements in their business, they push the company ahead in the industry.

Table 2: Correlation analysis of creativity and innovation, and financial performance

		Creativity & innovation weighting	Financial performance
Creativity and innovation weighting	Pearson Correlation	1	.310**
	Sig. (2-tailed)		.000
	N	375	375
Financial performance	Pearson Correlation	.310**	1
	Sig. (2-tailed)	.000	
	N	375	375

The Pearson correlation coefficient between creativity and innovation aspect of entrepreneurial competencies and financial performance of SMEs as measured by profitability had a value of 0.310. In terms of the strength of the relationship, it is indicative of a moderate (tending

towards weak) but positive relationship between creativity and innovation and SME financial performance. This leads to the rejection of the null hypothesis and the conclusion that the correlation between creativity and innovation and SME performance is significant.

Table 3: Risk Taking and Financial Performance

Risk-seeking entrepreneur	SD		D		N		A		SA	
	f	%	f	%	f	%	f	%	f	%
I put in resources into any opportunity I spot.	13	4	20	5	26	7	160	43	156	42
I focus on results not how much I put in.	26	7	30	8	51	14	153	41	114	30
When I invest in an opportunity, and it fails, I do not fear investing next time an opportunity shows up.	6	2	30	8	54	14	116	31	169	45
I get satisfactory rewards from my investments	11	3	30	8	63	17	158	42	113	30

Findings in Table 3 showed that (43%) of the respondents agreed that they invested their money in any opportunity that they spot, (41%) agreed that they were focused on the returns that could accrue from spotted opportunity and not on the risks involved, (45%) strongly agreed that

despite previous experiences of failure, they continued to invest in their businesses and (42%) agreed that they had received satisfactory returns from the opportunities they had spotted and invested in. This entails that the entrepreneurs in Muthurwa market do focus on the returns that they

can get from an opportunity and not the risk involved. In addition, they were risk takers who even after failure could still pursue another investment without fear of failure. Kuratko (2009), starting or buying a business involves risk; and the higher the rewards, the higher the risk that the

entrepreneur is likely to face. Findings differ with Kozubikova et al (2017) who found that entrepreneurs regardless of age, gender and personality traits, cannot manage financial risk in their business and they build up reserves as a strategy for minimizing financial risk.

Table 4: Correlation analysis of risk-taking and financial performance

		Risk-taking weighting	Financial performance
Risk-taking weighting	Pearson Correlation	1	.105*
	Sig. (2-tailed)		.043
	N	375	375
Financial performance	Pearson Correlation	.105*	1
	Sig. (2-tailed)	.043	
	N	375	375

The Pearson correlation coefficient between risk-taking aspect of entrepreneurial competencies and SMEs performance as measured by net profit had a value of 0.105 indicating a weak positive relationship between risk-taking and financial performance of SMEs. This leads to the rejection of the null hypothesis and the conclusion

that the correlation between risk-taking and financial performance is significant. In other words, for the correlation coefficient between risk-taking and the financial performance of SMEs, the probability that the relationship found is a matter of chance is low ($p=0.043$).

Table 5: Entrepreneurial Motivation and Financial Performance

Entrepreneurial motivation	SD		D		N		A		SA	
	f	%	f	%	f	%	f	%	f	%
I have passion for my business.	5	1	15	4	29	8	146	39	180	48
I persist in business event in times of difficulties.	9	2	16	4	42	11	165	44	143	38
Encouragement of employees.	7	2	18	5	35	9	170	45	145	39
I am not enticed by how much I earn but by how many people I serve	17	5	26	7	53	14	153	41	126	34

Findings in Table 5 showed that (48%) of the respondents strongly agreed that they had passion for their businesses, (44%) agreed that they were persistent with their businesses in times of difficulties, (45%) agreed that that they encouraged their employees to work hard for the success of their venture and (41%) agreed that they were always driven to serve people through their business activities. Encouraging employees injects an extrinsic motivation in them to work hard in

achieving the goals of the business. People feel happy when they have bosses that encourage them in their work instead of dictating to them all the times. This boosts their esteem and raises their morale at work. Findings concurs with ; Bhansing (2017) that entrepreneurial passion is one of the elements that drives people to become entrepreneurs; Su et al (2020) that happiness and satisfaction that entrepreneurs obtain are the main emotions that keep them sustained.

Table 6: Correlation analysis of motivation and financial performance

		Motivation weighting	Financial Performance
Motivation weighting	Pearson Correlation	1	.090
	Sig. (2-tailed)		.083
	N	375	375
Financial performance	Pearson Correlation	.090	1
	Sig. (2-tailed)	.083	
	N	375	375

The Pearson correlation coefficient between motivation aspect of entrepreneurial competencies and financial performance of SMEs as measured by financial performance has a value of 0.090. This is indicative of a very weak positive relationship between motivation and the financial performance of SMEs. The computed p-value or significant level of the correlation coefficient

between motivation and the financial performance of SMEs of 0.083, and which is above the critical value of 0.05 leads to the acceptance of the null hypothesis and the conclusion that the correlation between motivation and the financial performance of SMEs is found to be insignificant in the population of the study.

Table 7: Entrepreneurial Leadership and Financial Performance

Entrepreneurial leadership	SD		D		N		A		SA	
	f	%	f	%	f	%	f	%	f	%
My employees work willingly and happily.	7	2	19	5	47	13	128	34	174	46
I delegate my employees to do things on my behalf.	22	6	35	9	43	12	139	37	136	36
My employees are satisfied with their job.	13	4	6	2	66	18	164	44	126	34
I give my employees opportunities to learn and develop the themselves.	8	2	16	4	31	8	166	44	154	41

Findings in Table 7 showed that (46%) of the business owners strongly agreed that their employees were willing and happy at work place, (37%) agreed that they delegated their employees to do things on their behalf, (44%) agreed that their employees were satisfied with their jobs and (44%) agreed that they gave their employees opportunities to learn and develop themselves. When employees are happy with their managers and willing to work, their productivity is better than when the opposite is the case. Entrepreneurs should delegate employees to perform some of the duties including leadership duties when they perform tasks effectively. Job satisfaction motivates employees to put in their best for the success of the

organization. Employee learning and development may simply ease the work of the employee because of superior skills acquired through training. Findings are in agreement with; Hurduzeu (2015) that that transformational leadership inspires individuals within the organization to work harder and to strive for highest levels of performance; Noowe (2013) that delegation of duties was a morale booster to performing well; Otera (2018) that economic rewards, interpersonal relations, personal fulfillment are elements that brought about job satisfaction of employees; Githingi (2014) that training positively influenced employee engagement to change process, innovation, better performance and enthusiasm to work.

Table 8: Correlation analysis of entrepreneurial leadership and financial performance

		Entrepreneurial weighting	Leadership	Financial performance
Leadership weighting	Pearson Correlation	1		.080
	Sig. (2-tailed)			.121
	N	375		375
Profitability	Pearson Correlation	.080		1
	Sig. (2-tailed)	.121		
	N	375		375

The Pearson correlation coefficient between entrepreneurial leadership aspect of entrepreneurial competencies and SMEs performance as measured by net profit had a value of 0.080 indicating a very weak positive relationship between entrepreneurial leadership and financial performance of SMEs. The computed p-value or significant level of the correlation coefficient between entrepreneurial leadership and financial performance of SMEs of 0.121, and which falls above the critical value of 0.05, leads to the non-rejection of the null hypothesis and the conclusion that there is no significant relationship between entrepreneurial leadership and financial performance.

CONCLUSIONS AND RECOMMENDATIONS

The general objective of this study was to establish the effects of entrepreneurial competencies on the financial performance of SMEs taking the case of SMEs in Muthurwa market. The study concluded that creativity and innovation, motivation, risk-taking and entrepreneurial leadership as entrepreneurial competencies have an insignificant positive influence on the financial performance of SMEs in Muthurwa market in Nairobi East, of Nairobi County. Though some other studies had established a positive relationship between the variables under study and financial performance, the conclusions showed some variances. Some found a significant positive relationship, others as insignificant, others found no relationship, while others found negative

relationships. The findings of this study are therefore not too far from what other studies have found. These findings add to the theory on entrepreneurial competencies and financial performance of SMEs. A factor that could bring about the variances could be the different methodologies used which are likely to yield different results.

SMEs in Muthurwa market should try to be more creative and innovative. They should integrate technology in their business. This entails leveraging social media platforms like face-book, WhatsApp, to market their products. This will make it possible for them to reach a larger area of influence beyond the confines of Muthurwa market. For the SMEs in Muthurwa market to be more competitive, the owners must be intrinsically and put in all their time and energy to see the success of their businesses. They need to benchmark with their successful confreres in other parts of the world and boost their determination to succeed. Risk-taking is a critical factor entrepreneurship. However, entrepreneurs in Muthurwa market need to take calculated risk and not just any risk. They as well need to diversify their risk by investing in different areas for instance buying and selling of financial assets. This can boost their profitability. The SMEs owners in Muthurwa market also need to improve on their management skills. This can be done by attaining seminars, skill development workshops. This will help to boost their capabilities in managing their businesses.

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