Journal of Business and Management Sciences, 2026, Vol. 14, No. 2, 27-35
Available online at http://pubs.sciepub.com/jbms/14/2/3
Published by Science and Education Publishing
DOI:10.12691/jbms-14-2-3

Revisiting the Disruptive Innovation Theory as an Anchor for Strategic Innovation: Does it Matter in Driving Performance among SMEs in Kenya

Faith Rhita Awuor*, S. Makau A. Muathe

School of Business, Economics and Tourism, Kenyatta University
*Corresponding author: fayrhita@yahoo.com

Received June 11, 2026; Revised July 13, 2026; Accepted July 20, 2026

Abstract Small and medium enterprises (SMEs) are considered to be the engines of development in terms of growth, innovation and employment in developing economies. SMEs are a major source of employment and gross domestic product in Kenya, but have been facing long-term performance problems in terms of poor productivity, lack of market penetration and inefficiencies in operations. Disruptive innovation is now seen as a key enabler of strategic renewal and strategic innovation has become a key enabler for improving the competitiveness of SMEs. This study re-explores Disruptive Innovation Theory as a basis for strategic innovation and looks at its relevance to the performance of SMEs in Kenya. The study is based on Disruptive Innovation Theory, Dynamic Capability Theory, and Contingency Theory, thus using the Cross-Sectional Descriptive Research Design. The data collected were from 383 registered SMEs in Nairobi City County using structured questionnaires, the data analyzed were descriptive, and inferential statistics. The results indicate that strategic innovation makes a significant contribution to the performance of SMEs, with process innovation and disruptive innovation as significant factors. The research finds that the disruptive innovation perspective is a valid theory and practice of analyzing performance gaps in Kenyan SMEs.

Keywords: *Disruptive innovation, strategic innovation, SME performance, dynamic capabilities, Kenya*

Cite This Article: Faith Rhita Awuor, and S. Makau A. Muathe, "Revisiting the Disruptive Innovation Theory as an Anchor for Strategic Innovation: Does it Matter in Driving Performance among SMEs in Kenya." *Journal of Business and Management Sciences*, vol. 14, no. 2 (2026): 27-35. doi: 10.12691/jbms-14-2-3.

1. Introduction

It is universally recognized that Small and Medium Enterprises (SMEs) play a vital role in the economic, employment and innovation picture in both developed and developing countries. Across the world, a significant portion of industrial production is provided by SMEs and these are also the first to embrace labour, to stimulate entrepreneurship and to contribute to regional development [1,2]. They are flexible, close to markets and are experimenting, which is essential to growth through innovation. SMEs are also playing a structural transformation role in developing economies in particular, due to the fact that they have filled the gap created by the big companies and government institutions [3,4].

SMEs are the backbone of the Kenyan economy. More than 98 per cent of registered businesses are SMEs, which also make up a significant proportion of gross domestic product (GDP) and employment creation [5]. It is a major employer of youth and women, and a key driver of income and poverty alleviation. SMEs are highly concentrated in urban areas like Nairobi City County in manufacturing, trade, hospitality, information and communication technology (ICT) and professional services. Such businesses are vital for urban livelihoods, local value chains and for economic resilience. As a result, the performance of SMEs has wide-ranging ramifications for the economic stability, competitiveness and agenda for sustainable development in Kenya.

SMEs in Kenya are still faced with chronic performance issues in spite of their economic importance. To most businesses, the main challenges are to get customers, low productivity, high operating costs and inability to scale up. Rapid changes in customer preferences and technological changes are another constraint that limits the growth of SMEs and their survival, coupled with the excess of competition in urban markets [5,6]. The empirical evidence shows that a significant number of SMEs die within the first five years of their activities, mostly as a result of the lack of strategic ability, ineffective processes and limited innovation practices [7,8]. Limited access to finance, poor technological infrastructure and lack of managerial capacity are all issues that compound these challenges. This is one cause why many SMEs are stuck in low growth paths and thus don't achieve their long-term potential contribution to the economy [1,9].

To meet this challenge, strategic innovation has been

identified as an important tool that is leveraged to improve adaptability, competitiveness, and performance of SMEs. Strategic innovation involves intentionally changing products, processes and business models to add new value and maintain a competitive edge [10,11]. Strategic innovation is not incrementally or ad hoc, but it is a part of an organization's strategy, and it coordinates innovation processes with long-term performance goals. Innovation is not an option but a must for a resource-constrained SME to survive. Empirical studies indicate that SMEs that take an innovation strategy perspective obtain better results with regard to efficiency, customer satisfaction and market responsiveness [12]. Strategic innovation also contributes to improving organizational learning and flexibility, allowing the firms to be sensitive to new opportunities and thus to act proactively against the environmental uncertainty.

The Disruptive Innovation Theory is a powerful way to look at the strategic innovation discourse, and to see how SMEs can outperform established companies with lower resources. It is a theory which suggests that companies can obtain competitive advantage by presenting innovations that have lower complexity, cost, or availability of their offerings than those already available. This kind of innovations are normally directed to an unserved or overlooked market sector and then enhance the performance and redefine the industry standards [13]. Disruptive innovation enables SMEs to navigate around the direct competition with the incumbent and to develop new value propositions and alternative business models that upset the status quo of the market. This is especially important in developing economies where resources are scarce and cost-effective, scalable solutions must be used.

Despite the extensive research into DIT in advanced economies and in large corporations, its empirical significance as a strategic footing for the performance of SMEs in developing economies is less studied. Previous research on innovation in Kenya tends to view innovation as a singular phenomenon and/or individual innovation outcome. Others have weak theoretical foundation or lack strategic innovation view of disruptive innovation [14]. Consequently, the evidence has been disjointed and policy guidance on the strategic significance of disruptive innovation has been limited for both SME managers and policy makers.

Restating Disruptive Innovation as a root cause of strategic innovation, this study uses Disruptive Innovation Theory, Dynamic Capability Theory and Contingency Theory as a basis and empirically investigates the contribution of Disruptive Innovation to improving the performance of SMEs in Kenya. The study addresses both theoretical and empirical gaps in the literature on strategic innovation by conceptualizing it as a multidimensional construct comprising disruptive innovation, product innovation, process innovation and collaboration. Specifically, it examines and determines if disruptive innovation, when combined with other strategic innovation dimensions, is a significant variable that affects the performance outcomes of SMEs in Nairobi City County. The study offers empirical evidence relevant to the specific context, and enhances the theoretical knowledge about how innovation contributes to SME performance in developing economies.

1.2. Statement of the Problem

Small and medium enterprises (SMEs) are central to the economic development of Kenya since they create jobs, generate income and reduce poverty. The sector plays an important role in the national output and is a major engine of inclusive economic growth. This strategic position has not produced an optimum performance for the SMEs in Kenya. There is a significant number of SMEs that grow slowly, experience profit reduction and high failure rates, and many of them do not continue their businesses after five years of operation [15]. The chronic performance problems are a risk to the sustainability of the SME sector and to its contribution to long-term economic resilience.

The performance issue is worse in urban areas like Nairobi City County where SMEs compete in dynamic and competitive markets. SMEs are constantly under pressure to innovate and adapt, as they are forced to do so by intense competition, rising operational costs, market saturation and the speed of change in customer preferences. Based on empirical findings, however, many SMEs have problems retaining customers, internal processes are inefficient, they lack differentiation, and they have poor value propositions [7]. The limitations limit competitive advantage and put SMEs at a disadvantage in a very turbulent business environment.

A further look into the picture indicates that there remains a high percentage of SMEs in Kenya with a lack of operational efficiency and value creation. A number of businesses have ineffective production and service delivery processes, low level of technology utilization and have non-structured strategic planning frameworks. Inefficiencies in decision-making, process execution, and resources usage are responsible for low productivity and limited profitability [8]. These operational constraints limit the ability of SMEs to react appropriately to environmental changes, take advantage of emerging market opportunities, and increase the ability to meet competitive pressures. Enhancing the performance of the SMEs has therefore been a major concern of the policy makers, development institutions and business practitioners.

These have stimulated a growing discussion on strategic innovation as a viable means of improving SME competitiveness and performance. Strategic innovation includes the conscious rearrangements of business models, products and processes in order to generate new value and increase the adaptability to the dynamic markets [10,11]. Strategic innovation is a solution for small scale enterprises (SMEs) with limited resources to address structural constraints, to position themselves in new markets and to distinguish themselves from the competition. Companies that are more innovative and have innovation as part of their strategic orientation are more likely to be able to detect new opportunities, adapt to environmental uncertainty and enhance financial and non-financial performance results.

Although there is a growing focus on innovation-driven performance, empirical evidence on the relationship between innovation and performance of Kenyan SMEs is inconclusive and mixed. Many current research studies define innovation as a one-dimensional phenomenon and they view innovation as one aggregate variable and fail to

differentiate between disruptive innovation, product innovation, process innovation and collaborative innovation. This abstraction hides the differing impacts of different aspects of innovation on firm performance and restricts the applicability of research findings [12,16]. Consequently, the SME managers and policy makers do not have a clear and solid evidence-based direction in the form of innovation that delivers the highest performance in a resource and competitive context.

Most importantly, although Disruptive Innovation Theory provides a very strong framework to explain why companies, and in particular SMEs with limited resources, can outperform existing competitors with innovation, which is novel, lower in cost and accessible, the theory has not been applied in Kenya SMEs. The theory was used to understand how firms can reframe market structures and develop new value propositions by focusing on underserved market segments before going to the mainstream markets [13]. Most empirical applications of the theory have however been in large firms and in developed economies and there is therefore uncertainty about its applicability and utility as a strategic anchor for the performance of SMEs in developing economies like Kenya. There has been a lack of context-specific, multidimensional and theory-driven analyses, which has created a critical knowledge gap concerning the influence of disruptive innovation on SME performance in combination with other strategic innovations [14].

The central issue under study in this paper is if disruptive innovation, when integrated into a larger framework of strategic innovation (product, process, and collaborative innovation) has a significant impact on the performance of SMEs in Kenya. Failure to provide such evidence is likely to cause innovation strategies to be implemented in disjointed or inefficient ways, thereby reducing their benefits for SMEs' sustainability and competitiveness. The study, therefore, aims to revisit the DIT and empirically explore its applicability as a strategic fulcrum to understanding and improve SME performance in Kenya in the context of SMEs in Nairobi City County.

1.3. Objectives of the Study

The specific objectives of the study were to:

i. Examine the effect of disruptive innovation on the performance of SMEs in Kenya.

ii. Determine the effect of collaboration on the performance of SMEs in Kenya.

iii. Assess the effect of product innovation on the performance of SMEs in Kenya.

iv. Evaluate the effect of process innovation on the performance of SMEs in Kenya.

2. Theoretical Review

This study builds on three theoretical lenses, relevant to each other, which are Dynamic Capability Theory, Disruptive Innovation Theory and Contingency Theory. These theories are collectively a strong analytical lens through which to view how firms change, innovate and perform well in such dynamic and competitive environments. The theories of integration are more relevant to small and medium enterprises (SMEs) because of the fact that these are businesses that are faced with limited resources, uncertainty in the environment and high competition. The study merges these views to create a multidimensional theory of SME innovation, to understand both how SMEs innovate and why some innovation strategies result in better performance in certain contexts.

Dynamic Capability Theory (DCT), which was first developed by Teece, Pisano, and Shuen [1] and then extended by Teece [17] is about a firm's capability to proactively develop, acquire, and adapt its resources to adapt to the rapidly evolving external environment. While the Resource-Based View focuses on the value, rarity, inimitable, and non-substitutional nature of resources, DCT emphasizes on the need to continuously renew and reconfigure resources and capabilities. According to theory, there are three fundamental processes – sensing, seizing, and transforming – by which firms must adapt to environmental change and maintain a competitive advantage.

Dynamic capabilities are especially important for SMEs because they have fewer resources and are more sensitive to market shocks. While large firms may boast of their scale, capital and formal structures, SMEs often rely on being adaptive and flexible, and they are often unable to compete. SMEs can detect new customer needs, technology trends and market gaps with the help of sensing capabilities. Seizing capabilities help them redirect limited resources to high-potential opportunities and transforming capabilities help firms adapt internal processes, structures and routines to help deliver innovations.

The Dynamic Capability Theory has also helped to elaborate the process of strategic innovation as a result of conscious organizational learning and adaptation. SMEs which are constantly learning from both the feedback in the market place and from the competitive market are better equipped to introduce new products, redesign processes and try new business models. Research evidence indicates that dynamic capabilities are beneficial for SMEs to be more innovative, resilient and responsive to environmental turbulence [18]. These companies have the ability to introduce disruptive products, process, and innovation that boost efficiency, flexibility, and operational reliability. This makes DCT a basic rationale of how strategic innovation capabilities is linked with better SME performance.

In this study, Dynamic Capability Theory is used as the mechanism for understanding SMEs strategic innovation capability development and deployment. It outlines the mechanisms by which innovation initiatives are identified, delivered and embedded, making the link between strategic innovation and delivered results, including customer acquisition, operational efficiency and process effectiveness.

The concept of disruptive innovation, popularized in the business world by Christensen and further developed by researchers that followed, has a very strong explanation of how companies, especially those with limited resources, can be successful in overcoming well-established market participants. The theory is that innovations that are first introduced in a relatively low-tech, low-price niche market

can break into those areas which were either overlooked or underserved. In the course of time, these innovations are refinements and improvement in their quality, performance and eventually change the structures of the industry and replace the existing ones [13].

For SMEs, disruptive innovation is particularly relevant because it can provide a strategic route that is not competitive with the dominant firms. Instead of direct competition on the scale or technology, SMEs could reshape customer expectations by employing different value propositions, low-tech solutions and new business models. This approach minimizes entry barriers and reliance on big capital investments and is ideal for SMEs in underdeveloped economies.

In the SME sector, disruptive innovation can help companies overcome the limits of the current market and take advantage of existing value chain gaps. SMEs can grab niche markets, underserved customers or catch informal markets where larger businesses fail to pay attention. Empirical studies in emerging markets have shown that SMEs using disruptive innovations have shown an increase in their market responsiveness, and quicker customer acquisition, and operational flexibility [19,20]. Disruptive innovation also encourages experimentation and incremental learning, enabling SMEs to get products right over time and grow efficiently as demand for their products increases.

For this study, Disruptive Innovation Theory is used as the strategic compass that accounts for performance gaps between SMEs. It explains why some innovation strategies are more effective in Kenya's resource-poor settings, especially those that focus on making innovations affordable, accessible, and viable via new business models. The theory directly guides the study of focus on disruptive innovation as a key independent factor that affects SME performance.

Dynamic Capability Theory and Disruptive Innovation Theory both help to address the question of why and how firms are able to innovate but Contingency Theory also provides an important contextual dimension, as no one thing works for all situations. Contingency Theory, which is based on the work of Donaldson [21] suggests that the successful performance of an organization is contingent upon the fit between strategy and environment. The impact of innovation strategies is influenced by market volatility, technological developments, regulations, firm size and industry characteristics.

Contextual contingencies are especially high for SMEs in Kenya. Understanding the dynamics of volatile markets with infrastructure constraints, regulatory complexities, and rapidly changing customer preference. Compliance with the dynamics of volatile markets with infrastructure constraints, regulatory complexities, and rapidly changing customer preference. In these circumstances, innovation strategies that work in one particular setting may not work in another if they don't fit into the environment. The Contingency Theory thus emphasizes strategic fit: innovation efforts need to be situation and firm-specific to achieve the best performance.

In this research, the differences in effectiveness of innovations between SMEs can be understood by the Contingency Theory, which may seem the same in terms of resources/capabilities. It makes it clear why some SMEs can convert their efforts in innovation into performance gains and others have limited returns because of the misalignment between innovation strategies and the demands of the environment. The theory therefore reinforces the need for context-based innovation strategies with the other viewpoints.

Together, Dynamic Capability Theory, Disruptive Innovation Theory and Contingency Theory offer an in-depth understanding of the performance of SMEs. Dynamic Capability Theory provides an understanding of how firms become adaptive and innovative, Disruptive Innovation Theory offers insights into how firms use their adaptive and innovative capabilities to reconfigure markets and generate new value, and Contingency Theory focuses on the situational factors through which innovation strategies become effective and lead to better performance.

This integrated theoretical framework can account for the fact that some SMEs are more successful than others in the face of similar resource limitations. It allows a multidimensional view of innovation performance, taking into account the interaction among internal capabilities, innovation strategy options, and environmental matching. The framework is especially appropriate for SMEs that must constantly adjust due to competition and institutional constraints in the rapidly changing urban economy of Kenya.

This integrated view is always relevant and has been supported by empirical evidence in emerging economies. Research indicates that disruptive innovation and the performance of a SME are positively correlated, especially in terms of growth, competitiveness, and resilience. Disruptive innovation reduces barriers to market entry, provides easier access to less well served markets and facilitates efficient market expansion. In addition to dynamic capabilities and contextual fit, disruptive innovation becomes a force that can enhance long-term SME performance.

Other empirical research in Kenya also confirms the strategic innovation concept as a multi-faceted phenomenon. Evidence shows that SMEs that incorporate innovation in their business strategy can obtain better financial and non-financial results. Process innovation boosts productivity, cost-effectiveness and operational reliability; product innovation generates customer satisfaction and market responsiveness; and collaborative innovation enables the use of external knowledge and resources. Yet, there is also evidence that effectiveness of innovation is highly dependent on structured and integrated implementation. SMEs which innovate in isolation or piecemeal do not have the potential to scale up benefits [22,23,24].

Therefore, the current research defines disruptive innovation as an integral part of a strategic innovation process, which is composed of product innovation, process innovation and collaborative innovation. It is grounded on the three theories that are complementary and thus it gives a solid theoretical foundation for the study of the impact of strategic innovation on SME performance in Kenya.

2.1. Empirical Review

In fact, the strategic literature has increasingly focused

on innovation as a driving force behind improving the competitiveness, adaptability and sustainability of a firm. In the case of small and medium enterprises (SMEs) innovation is particularly important because of the constant lack of resources, high sensitivity to environmental risk and competition. Recent research indicates that SMEs in dynamic and volatile markets are not only driven to innovate to distinguish themselves from their competitors but also to restructure their internal skills and resources to meet the evolving needs of their customers [10,11]. Consequently, innovation has been transformed from an operational function into a strategic priority for the performance of SMEs.

In recent studies, strategic innovation is conceptualized as a multi-dimensional phenomenon which involves planned changes to products, processes, business models and inter-organizational relationships that add new value and maintain a competitive advantage. The view is that SMEs do not typically rely on a single type of innovation but, rather, the performance outcomes are the result of multiple dimensions of innovation—disruptive innovation, product innovation, process innovation, and collaborative innovation. The research evidences in both developed and developing countries suggest that the SMEs which integrate innovation into their strategic orientation have better financial performance, higher operational efficiency, better customer satisfaction and higher market responsiveness [2,12]. The findings highlight the need to consider innovation as a system of strategy and not just as a single action.

In this larger conversation, disruptive innovation is becoming a topic of increased academic interest because of its disruptive effects on competition, especially for resource-poor companies. In disruptive innovation, the product, service, or business model disrupts an existing market segment by being simpler, cheaper, or more accessible than the market leaders and eventually by changing the rules of the game in the industry [13]. In the case of SMEs, disruptive innovation is a means to avoid direct competition with established players, and to develop alternative value propositions. Unmet needs among customers and institutional deficiencies in developing economies are an ideal match for disruptive innovation because they offer low cost and scalable solutions.

But there are significant inconsistent literature and gaps in understanding about the relationship between innovation and SME's performance. To begin with, many empirical studies have a fairly limited and unidimensional conception of innovation, which are commonly collapsed into one innovation construct, as a grouping of many innovation practices. This method does not provide a clear theoretical view, nor a clear understanding of the various impacts' innovation dimensions have on firm performance [12,16]. Second, methodological differences in research design, measurement technique, performance indicators, and so forth have helped to yield mixed and sometimes conflicting results. Third, existing results are not fully generalizable because of contextual differences between countries, sectors and institutional contexts.

These restrictions are especially stark in the Kenyan context. A good number of studies recognize the value of innovation for the competitiveness of SMEs, but many do not have a solid theoretical foundation, or incorporate disruptive innovation into a larger strategic innovation project. Further, empirical studies are typically conducted at the sector level or at the level of a single innovation and do not take into account the intricate and interdependent nature of innovation practices contextually between SMEs in the fast-changing Nairobi City County. This has led to an incomplete picture and limited support to SME managers and policy makers interested in using innovation to improve SME performance.

Based on these identified gaps, a literature review is needed that is grounded in theory and is context-specific, and that places disruptive innovation within the larger strategic innovation landscape. This review provides a better understanding of the interaction between these innovation dimensions and their effects on SME performance, especially in resource-constrained, volatile markets and institutional intricacies in developing economies. This study addresses calls for more focused and theoretically informed studies on innovation-driven performance in SMEs by combining the concepts of Disruptive Innovation Theory, Dynamic Capability Theory, and Contingency Theory. The next sections, therefore, outline the theoretical underpinnings and empirical evidence to build a coherent framework to explore disruptive innovation as a strategic compass of SME performance in Kenya.

3. Research Methodology

The study used a descriptive research design of a cross-sectional type to investigate the effect of strategic innovation on small and medium size enterprises (SMEs) performance in Kenya. The design was suitable because it allowed quantitative data to be gathered with a comparatively large number of SMEs at one moment in time, and therefore facilitated the empirical investigation of the relationships between the strategic innovation dimensions (disruptive innovation, product innovation, process innovation and collaboration) and SME performance outcomes. The cross-sectional design is used frequently in innovation research and research on small and medium sized enterprises, because of its efficiency, cost effectiveness, and is used for testing the theoretically grounded relationship between two or more study variables without manipulating them.

The cross-sectional approach in turn enabled the simultaneous measurement of several aspects of strategic innovation in a dynamic and competitive business context in cities. This was especially important when dealing with strategic innovation and the capturing of variation of the innovation practices among and within the different sectors of heterogeneous SMEs. The design used the aforementioned relationships simultaneously, to strengthen the study's ability to provide generalizable insights into the contribution of strategic innovation to SME performance in Nairobi City County.

The target population was formally registered small and medium enterprises (SMEs) in Nairobi City County, Kenya with at least two years of operation in the last three years. Nairobi City County was chosen because it has a large number of SMEs in a variety of sectors such as manufacturing, retail sales, and information and

communication technology (ICT) businesses, as well as hospitality and consultancy. The county is a very competitive and innovation-intensive business environment which is appropriate for the study of the relationships between innovation and performance. The population was limited to SMEs that are at least two years old, thus respondents had enough organizational experience and exposure to innovation practices and outcomes.

Stratified random sampling was used, where sectors of SMEs were considered as different strata in order to increase representativeness and minimize sampling bias. Within each stratum, proportionate sampling was used to ensure that there was adequate representation of SMEs from different sectors in the final sample. This method took into account the variation in the different sectors and improved the generalizability of the results for all different categories of SMEs in Nairobi City County.

A sample size was calculated using Cochran's formula for finite populations at 95 percent confidence level and five percent margin of error. This calculation led to the selection of a sample of 383 SMEs to be studied. This sample size was deemed sufficient to carry out the inferential statistics such as multiple regression and analysis of variance (ANOVA). The relatively large sample provided statistical power, increased the accuracy of parameter estimates and reduced the risk of sampling error, which increased the confidence of the study results.

Structured questionnaires, self-administered, were developed based on the objectives of the study and literature on innovation and SME performance to gather primary data. The items of the questionnaire were closed ended with a Likert scale to improve reliability, uniformity and facilitate quantitative analysis. The instrument collected information about four dimensions of strategic innovation (disruptive innovation, collaboration, product innovation and process innovation) and important SME performance indicators such as customer acquisition, operational efficiency and process effectiveness. Structured questionnaires allowed for the uniform collection of data from all respondents, and decreased interviewer bias in data collection.

The statistical package for social sciences (SPSS) was used for data analysis. Descriptive and inferential statistical methods have been used. The extent of adoption of strategic innovation practices of SMEs was summarized by descriptive statistics such as means and standard deviations. The influence of strategic innovation dimensions on SME performance was tested using inferential statistics in the form of multiple regression analysis and ANOVA and the relative contribution of each innovation dimension was determined. The analytical approach allowed for strong testing of relationships that were derived from theory, and allowed for empirical evidence about the relevance of disruption as a strategic anchor in SME performance in Nairobi City County.

4. Research Findings and Discussion

The findings from the study on the effect of strategic innovation on the performance of small and medium enterprises (SMEs) in Nairobi City County are presented and discussed in this section. The analysis is conducted at the overall (joint) level of strategic innovation dimensions and on the individual strategic innovation dimensions of disruptive innovation, collaboration, product innovation and process innovation and its contribution to SME performance. The discussion incorporates statistical findings and relevant theoretical understanding and previous empirical research. Measures were taken to analyze the combined (joint) impact of strategic innovation dimensions and the contribution of the disruptive innovation, collaboration innovation, product innovation and process innovation separately, using multiple regression analysis. Three tables, namely Model Summary, Analysis of Variance (ANOVA), and Regression Coefficients are used to present the results according to the general practices of reporting the results of regression.

4.1. Overall Effect of Strategic Innovation on SME Performance

A multiple regression model was estimated to check if strategic innovation has a simultaneous effect on SME performance. The overall explanatory power of the model is presented using the model summary statistics.

Table 1. Model Summary for Strategic Innovation and SME Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.960	0.921	0.920	0.05812

Source: Survey data (2025)

The model summary results show that there is a very strong positive relationship between strategic innovation and performance of SMEs (R = 0.960). The coefficient of determination (R^2 = 0.921) indicates that 92.1 per cent of SME performance variation is explained by the combined effect of disruptive innovation, collaboration, product innovation and process innovation. The adjusted R^2 (0.920) further verifies that the model is not over-fitted as the number of predictors has not changed the model's performance. The results show that strategic innovation plays a significant role in the performance of SMEs in Nairobi City County.

An Analysis of Variance (ANOVA) was run to determine if the regression model statistically significantly improves the model with no predictors.

Table 2. ANOVA Results for Strategic Innovation and SME Performance

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	14.823	4	3.706	1097.109	0.000
Residual	1.277	378	0.003		
Total	16.099	382			

Source: Survey data (2025)

The F value for ANOVA was 1097.109 with p value of < 0.001, suggesting that the regression model is statistically significant. This means that the sum of

strategic innovation is a significant contributor to explain the differences in SME performance. The large F-statistic indicates that the regression model is a much better fit than a null model with no predictors. Therefore, the null hypothesis, "no significant joint effect on SME performance of strategic innovation" is rejected. The findings confirm the conceptual framework of the study which assumes strategic innovation as a whole system and not as a set of stand-alone innovation practices.

4.2. Individual Effects of Strategic Innovation Dimensions on SME Performance

Regression coefficients were estimated to see the relative contribution of each strategic innovation dimension. The standardized beta coefficients, t values, and significance levels computed are displayed in Table 3.

Table 3. Regression Coefficients for Strategic Innovation and SME Performance

Predictor Variable	Unstandardized B	Std. Error	Standardized Beta (β)	t-value	Sig.
Constant	0.037	0.069	—	0.545	0.586
Disruptive Innovation	0.188	0.008	0.360	24.867	0.000
Collaboration	0.173	0.009	0.284	19.562	0.000
Product Innovation	0.266	0.008	0.484	33.322	0.000
Process Innovation	0.406	0.008	0.706	48.590	0.000

Source: Survey data (2025)

The regression coefficients suggest that all four factors of strategic innovation have positive and significant impacts on the performance of SMEs ($p < 0.001$). This indicates that disruptive innovation, collaboration, product innovation and process innovation all make a significant contribution to improving SME performance outcomes.

The predictors that strongly influenced SME performance were process innovation ($\beta = 0.706$). This indicates that performance metrics such as productivity, cost efficiency, and reliability of services are better when SMEs focus on redesigning workflows, digitizing operations, and improving processes. In the competitive urban context of Nairobi, efficiency and speed of operation is key to gaining competitive advantage. This result is very much consistent with Dynamic Capability Theory, which is based on the need for ongoing transformation of internal processes to maintain performance.

The second strongest predictor ($\beta = 0.484$) was product innovation, which means SMEs that innovate their product and services are more likely to be able to respond to changing customer needs, increase customer satisfaction and enhance market responsiveness. This serves as confirmation of the empirical evidence already available that shows that product innovation is correlated with increased competitiveness of SMEs in developing economies.

Furthermore, disruptive innovation had a significant and strong impact on the performance of SMEs ($\beta = 0.360$) with a statistically significant result. This discovery offers empirical evidence for the Disruptive Innovation Theory since it shows that SMEs can enter into unserved markets and disrupt the competitive environment successfully by using novel, affordable and easily accessible business models while facing limited resources. In the Kenyan SME environment, disruptive innovation provides a way for companies to redefine value creation and rapidly expand their businesses with little or no direct competition from existing businesses.

Although collaboration was the least predictive variable ($\beta = 0.284$), it was still an important factor that positively affected the performance of the SMEs. This implies that strategic alliances and knowledge-sharing processes boost their performance by enabling them to gain benefits from external sources and knowledge. It suggests, however, that the relatively low coefficient means that working together provides greater performance improvement when backed by powerful internal innovation capacity, which is consistent with Contingency Theory.

4.3. Discussion of Findings

The results overall support the hypothesis that strategic innovation is a multidimensional and powerful predictor of SME performance. SMEs that incorporate disruptive innovations, product innovations, process innovations and collaborative innovations, obtain better results in customer acquisition, efficiency and effectiveness in the operations and service. The results address prevailing gaps in the empirical evidence as they provide robust quantitative evidence in an environment of intense competition and environmental uncertainty in Nairobi City County.

The impact of disruptive innovation is a testament to its strategic significance as a means for SMEs to redefine their value propositions and capitalize on new market opportunities. Disruptive strategies help increase adaptability and long-term competitiveness when complemented with process and product innovation. The findings complement the previous literature by proving the relevance of applying the Disruptive Innovation Theory in the context of SMEs in Kenya in an empirical study and by providing an empirical validation in the Kenyan context.

The findings also highlight an integrated approach to innovation instead of isolated initiatives for the SME managers from a policy and managerial perspective. Policymakers will also need to place emphasis on policies promoting process optimization, digital transition and innovative business models. In summary, these findings support the study's key argument, which is that strategic innovation - based on disruptive innovation is crucial for enhancing SME performance in Kenya.

5. Conclusion

The study aimed at recharting the way Disruptive Innovation Theory is seen as a tool for strategic innovation and critically establishing its relevance to the performance of small and medium businesses (SMEs) in Kenya. The study is guided by Disruptive Innovation

Theory, Dynamic Capability Theory and Contingency Theory and has strong empirical evidence that strategic innovation is a key factor affecting the performance of SMEs in the dynamic and competitive business environment in Nairobi City County. The results support the hypothesis that SMEs that make conscious decisions to incorporate innovation into their strategic posture outperform SMEs using traditional or reactive approaches.

Specifically, the study finds that strategic innovation – a multi-dimensional phenomenon comprising disruptive innovation, product innovation, process innovation, and collaboration – has significant effect on the performance of SMEs. Disruptive innovation is an essential strategic tool for any SME to redefine value propositions, break into new markets that are not well served and overcome resource limitations. Disruptive innovation, when integrated into a comprehensive strategy for innovation, improves acquisition, efficiency and firm effectiveness. The results of this study indicate that Disruptive Innovation Theory remains relevant in understanding the performance gap between SMEs in developing economies, and offer strong empirical evidence in this regard.

The study also found that process innovation comes out as the most impactful dimension of strategic innovation, followed by product innovation and disruptive innovation. When SMEs focus on workflow optimization, digitalization, and process redesign, they reap greater efficiencies, reliability, and responsiveness. These findings are based on the operating conditions of SMEs in an urban environment where speed, efficiency, and quality of service are essential factors which contribute to their competitive advantage. Product innovation reinforces the gains by improving customer satisfaction and market responsiveness, and disruptive innovation helps SMEs to break out of the traditional business model and take advantage of new market opportunities.

In general, the study highlights the need to consider strategic innovation as a strategic orientation that is not an isolated or episodic, but an integrated one. SMEs that integrate disruptive, product and process innovation, and collaborative innovation in a coherent strategic framework are more likely to overcome the uncertainty of the environment, cope with competition and ensure long-term growth. The results also highlight that the effectiveness of innovation depends on structured implementation and strategic alignment, thus linking the concepts in Dynamic Capability Theory and Contingency Theory to the understanding of how innovation translates into performance outcomes.

From a theoretical standpoint, this study provides a reaffirmation of the viability and contextual relevance of Disruptive Innovation Theory as a lens to explain SME performance in a developing economy, thus complementing the existing research on strategic innovation and SME literature. The study empirically tests the theory in the Kenyan context of the SMEs and embeds it in other theoretical frameworks, thus contributing to a deeper understanding of innovation performance which has a complex and multidimensional dimension. In terms of practice, the results underscore the importance of incorporating innovation into the core of the SME management strategy and making conscious investments in the optimization of processes, the development of new products, and collaborative arrangements.

Finally, the study demonstrates that strategic innovation with a focus on disruptive innovation is not a choice, but a strategic imperative for SMEs in volatile and resource constrained environments. Integrated innovation strategies that are synchronized with internal capacities and external conditions can help to improve the competitiveness, resilience and sustainable performance of SMEs. The study therefore calls for innovation to become a key focus in enterprise strategy and national economic development among SME managers and the policy makers in Kenya.

5.1. Policy Recommendations

This study revealed that there is a need for the government to beef up innovation-oriented policies for the strategic capabilities of small and medium enterprises (SMEs) in Kenya. Government institutions must focus on the creation of comprehensive frameworks which make disruptive and process innovation of SMEs more explicit. These should reflect the strategic nature of innovation, and not be treated as a sideline. This can be done by providing innovation grants, specific tax incentives, and offers for SMEs investing in new innovations and technologies, as well as in new business models. Mechanism for financial support should be made available and customized to the specific needs of SMEs. These interventions would make the innovation adoption less costly. Reducing the cost of innovation would improve SMEs' competitive performance in markets. In the end, such policy decisions would positively affect the sustainability of SMEs and their future performance.

The study also calls for further scaling up of innovation infrastructure to enable SME experimentation and organizational learning. Government policies need to create innovation hubs, technology parks, incubators to provide SMEs access to modern technologies and shared facilities. Technical skills, mentorship and business development services are to be provided by these platforms. Innovation infrastructure can facilitate experimentation and reduce the risks associated with innovation initiatives. Such means will facilitate the incorporation of disruptive technologies and innovative processes by SMEs. The development of innovation hubs also boosts peer learning and collaboration. Improve the connection between the SMEs and the universities and research institutions for applied research and commercialization. These connections could speed up the flow of knowledge and innovation fueled development of SMEs.

Moreover, policies need to actively foster partnering innovations and strategic partnerships between small and medium sized enterprises (SMEs) as well as between SMEs and larger companies. Regulatory policies should work towards minimizing obstacles to inter-firm cooperation and strategic partnerships. The networking and knowledge sharing among SMEs in individual sectors can be encouraged by the cluster-based development policies. Cooperation allows SMEs to combine resources and share risk of innovations. By engaging in strategic partnerships, firms can also gain access to complementary capabilities and new markets. Partnerships can help to improve market visibility and competitiveness in urban

areas like Nairobi City County. It is important to have platforms that allow business-to-business interactions to be supported by the policymakers. Collective resilience of the SME sector can be enhanced by creating collaborative ecosystems.

Last but not least, strategic innovation capacity-building programs should be better developed to build managerial and technical capacity in this area. Policy makers should develop training courses in collaboration with development agencies, to suit the needs of the innovations required by SMEs. The programs ought to be centered around innovation management, digital transformation, and innovation in the business models. Capacity building should focus on the operational managers as well as the owners of the SMEs. Improved managerial skills leads to better strategic decision making and implementation of innovation. Technical training is to aid in the effective use of new technology and processes. There is a strong need to invest in human capital development to maintain the outcomes of innovation. Finally, capacity building and development of skills and competencies will help to translate innovation policies into tangible improvements in performance of SMEs in Kenya.

5.2. Limitations and Future Research Direction

There are a number of limitations related to this study. The cross-sectional design does not allow the possibility of establishing causal relationships and evaluating the effects on strategic innovation and the SME performance over time. Moreover, reliance on self-reported information on questionnaires can have caused the bias of the response especially when the data are not verified by some objective performance measures like audited financial records. The study also had some limitations due to the geographical scope of the study as the sample size was just SMEs in Nairobi City County, which may not allow findings of the study to be generalized to other geographical areas and sectors in other parts of Kenya. Finally, four dimensions of strategic innovation excluded other forms of innovation e.g. business model and marketing innovation. The results of future studies should be more comprehensive by taking into account dimensions of innovation, wider geographically and sectorally.

References

[1] World Bank, "Small and Medium Enterprises (SMEs) Finance," World Bank Group, Washington, DC, 2023.

[2] OECD, Financing SMEs and Entrepreneurs 2022: An OECD Scoreboard. Paris: OECD Publishing, 2022.

[3] International Finance Corporation (IFC), MSME Finance Gap Report Update. Washington, DC: World Bank Group, 2023.

[4] United Nations Conference on Trade and Development (UNCTAD), Trade and Development Report 2022. United Nations, 2022.

[5] Kenya National Bureau of Statistics, Economic Survey 2023. KNBS, 2023.

[6] World Bank, "Small and Medium Enterprises (SMEs) Finance," World Bank Group, 2022.

[7] J. M. Mutua and G. M. Kinyua, "Competitive strategies and performance of small and medium enterprises in Nairobi City County," International Journal of Business and Management, vol. 17, no. 6, pp. 45–59, 2022.

[8] United Nations Industrial Development Organization, SME Competitiveness Outlook 2023. UNIDO, 2023.

[9] African Development Bank (AfDB), African Economic Outlook 2022: Supporting Climate Resilience and a Just Energy Transition in Africa. Abidjan: AfDB, 2022.

[10] S. Kraus, M. Breier, P. Jones, and M. Hughes, "Strategic innovation and firm performance: A configurational perspective," Long Range Planning, vol. 55, no. 4, p. 102144, 2022.

[11] A. Ghezzi and A. Cavallo, "Agile business model innovation in digital entrepreneurship," Technological Forecasting and Social Change, vol. 188, p. 122270, 2023.

[12] S. M. Chege and D. Wang, "The influence of innovation strategy on firm performance in small and medium enterprises," International Journal of Innovation Management, vol. 26, no. 3, p. 2250021, 2022.

[13] C. M. Christensen, M. E. Raynor, and R. McDonald, "What is disruptive innovation?" Harvard Business Review, vol. 101, no. 1, pp. 44–53, 2023.

[14] P. Otieno, L. Mwangi, and J. Wambua, "Disruptive innovation and performance of SMEs in emerging economies," Journal of Innovation and Entrepreneurship, vol. 12, no. 1, pp. 1–19, 2023.

[15] Kenya National Bureau of Statistics, Micro, Small and Medium Establishments (MSME) Survey Report. KNBS, 2024.

[16] S. Chepkonga and J. Njoki, "Innovation practices and performance of SMEs in developing economies: Evidence from Kenya," African Journal of Economic and Management Studies, vol. 15, no. 2, pp. 267–283, 2024.

[17] D. J. Teece, Dynamic Capabilities and Strategic Management: Organizing for Innovation and Growth, 2nd ed. Oxford University Press, 2020.

[18] M. A. Peteraf, G. Di Stefano, and G. Verona, "The elephant in the room of dynamic capabilities: Bringing managerial cognition into focus," Academy of Management Perspectives, vol. 36, no. 2, pp. 386–404, 2022.

[19] Y. Snihur and J. Wiklund, "Searching for innovation: Product, process, and business model innovation in SMEs," Entrepreneurship Theory and Practice, vol. 47, no. 1, pp. 183–210, 2023.

[20] S. D. Anthony, C. M. Christensen, D. S. Duncan, and M. W. Johnson, Disruptive Innovation: An Intellectual History and Directions for Future Research. Harvard Business School Publishing, 2023.

[21] L. Donaldson, The Contingency Theory of Organizations. Sage Publications, 2021.

[22] L. Cherono and A. Njeru, "Strategic innovation and firm performance among SMEs in Nairobi City County," Journal of Small Business and Enterprise Development, vol. 31, no. 1, pp. 98–116, 2024.

[23] J. K. Wako and J. Mwanzia, "Innovation capability and performance of small enterprises in Kenya," African Journal of Business Management, vol. 17, no. 4, pp. 89–101, 2023.

[24] R. Buyiya, M. Mwangi, and J. Otieno, "Strategic innovation and performance of small and medium enterprises in Kenya," Journal of Entrepreneurship and Innovation in Emerging Economies, vol. 11, no. 1, pp. 45–63, 2025.