INNOVATION STRATEGIES AND PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN THE COSMETICS SECTOR IN NAIROBI CITY COUNTY, KENYA

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ABSTRACT

Purpose: Despite operating in a rapidly growing sector, cosmetics SMEs have exhibited fluctuating financial performance over the past five years, reflected in inconsistent trends in ROA, market share, and revenue growth. The study examined the effect of innovation strategies on the performance of cosmetics small and medium-sized enterprises (SMEs) in Nairobi City County, Kenya. The study was anchored on the diffusion of innovation theory.

Methodology: The study adopted a descriptive research design targeting 600 registered cosmetics SMEs operating in Nairobi City County. A stratified random sampling technique was employed to ensure proportional representation of manufacturers, wholesalers, and retailers, resulting in a sample size of 240 SMEs. Primary data were collected using structured questionnaires administered to business managers, one from each selected firm, and complemented by secondary financial data. Prior to the main study, a pilot study involving 24 respondents was conducted to assess the validity and reliability of the research instrument. The pilot study achieved a response rate of 83.3%. Content validity results yielded an overall Content Validity Index (CVI) of 0.86, while construct validity was confirmed through factor analysis, with all factor loadings exceeding the recommended threshold of 0.50. Reliability results indicated satisfactory internal consistency, with Cronbach's Alpha coefficients ranging from 0.804 to 0.873 and an overall reliability coefficient of 0. 836.Data were analyzed using descriptive and inferential statistics, including Pearson's Product–Moment Correlation and multiple linear regression analysis.

Findings: The findings established that innovation strategies had a positive and statistically significant effect on the performance of cosmetics SMEs. The regression model explained 69.1% of the variation in SME.

Recommendations: The study recommends that SME managers prioritize continuous innovation to enhance competitiveness and long-term sustainability. Policymakers should formulate supportive policies that promote innovation, facilitate access to finance, strengthen SME capacity-building programs for cosmetics SMEs.

Key words: Innovation Strategies, Performance, Small and Medium Enterprises in the Cosmetics Sector in Nairobi City County, Kenya.

INTRODUCTION

Background of the Study

The performance of small and medium enterprises (SMEs) in Kenya has been a subject of growing academic and policy interest, as the sector continues to contribute over 33% to the national GDP and provides more than 80% of employment opportunities in the country (KNBS, 2024). Despite their significance, a large number of SMEs have poor profitability, sluggish growth, and a significant failure rate within the first three years of operation (Odongo, 2025). Rising urbanization, shifting beauty trends, and youth entrepreneurship have all contributed to the continuous growth of the cosmetics subsector, a vibrant component of Nairobi City County's retail economy. The modern business environment is increasingly complex and dynamic, driven by factors such as rapid technological progress, globalization, environmental sustainability concerns, and Innovative strategies involve the adoption of new technologies, processes, or business models to improve products, services, and operational efficiency (Cherono & Njeru, 2024).In Kenya, innovation has been identified as a key driver of SME performance, particularly in dynamic sectors where firms must continuously adapt to changing consumer preferences and technological advancements (Cherono & Njeru, 2024). Market niche refers to a focused strategy where firms target a specific segment of the market with unique needs and tailor their offerings accordingly. This approach allows SMEs to avoid direct competition with larger firms and build strong customer relationships within specialized segments, thereby enhancing performance (Kraus et al., 2020).

However, despite the growth of the cosmetics sector, many SMEs in Nairobi City County continue to face challenges related to limited innovation (Mwangi 2025; Kiviti 2018; Ngira 2025; Kairu 2022). Existing studies in Kenya have largely focused on general strategic management practices and SME performance, with limited emphasis on industry-specific strategies, particularly within the cosmetics subsector (Cherono & Njeru, 2024). Additionally, while global and African studies highlight the importance of innovative strategies affect the performance of SMEs in localized contexts such as Nairobi. Therefore, this study seeks to address these gaps by examining the effect of innovative strategies on the performance of small and medium-sized cosmetics enterprises in Nairobi City County, Kenya. By doing so, the study aims to provide context-specific insights that can inform both practitioners and policymakers in enhancing the competitiveness and sustainability of SMEs within the cosmetics sector.

Statement of the Problem

Over the past five years, cosmetics SMEs in Nairobi City County have experienced fluctuating performance levels despite operating in a rapidly expanding industry. Although Kenya’s cosmetics market is valued at about USD 2.44 billion in 2025 and growing at an annual rate of 5.1% (KRA, 2025), individual firms continue to struggle with unstable profitability, inconsistent market share, and irregular revenue growth, hindering their overall financial sustainability and competitiveness.

Reports from KNBS (2020- 2025), Nairobi County Business Registry (2020 -2025), and KRA 2020- 2025) reveal a notable performance volatility of the SMEs cosmetics in Nairobi, Kenya, over the five years. In 2020, the KNBS (2021) reported the ROI of 5.8%, declining to 3.2% in 2021, rising again to 6.7% in 2022 (Nairobi County Business Registry 2024), only to fall to 4.5% and 3.8% in 2023 and 2024 respectively, (Nairobi County Business Registry 2025). The fluctuating RO1 suggests inconsistent profitability levels, possibly linked to variable tax costs and financial management inefficiencies. The market share also slowed with reports indicating a market share of 36.0% in 2020, declining to 33.5% in 2021, before a partial recovery in 2022 to 35.2%, and fell again to 34.0% and 33.7% in 2023 and 2024, respectively, indicating challenges in maintaining competitive dominance (KNBS 2021- 2025). Meanwhile, annual revenue growth also depicted a similar fluctuating pattern, with 2020 recording a revenue growth of 7.5%, falling to 4.1% in 2021, rising sharply to 9.3% in 2022, but dipping again to 5.6% and 4.2% in 2023 and 2024, respectively, highlighting unstable growth trajectories within the sector. These fluctuations suggest that external factors such as market competition, changing consumer preferences, regulatory pressures, and economic conditions may partly explain the unstable performance. (Cherono & Njeru, 2024). Despite a growing body of research on strategic positioning and SME performance in Kenya and other developing economies, significant contextual, conceptual, and methodological gaps remain. Most studies have focused on manufacturing, service, or general SMEs, with limited attention to the cosmetics sector, as seen in studies by Kapukha (2023), Mwanyolo (2025), Gachimu (2025), Ngira (2025), and Odhiambo and Juma (2025). Conceptually, prior research has largely examined strategic positioning variables in isolation, for example, Agyapong and Boamah (2018) and Gitau and Mang'ana (2021) on cost leadership, Okwaro et al. (2024) and Ndolo and Kinyua (2026) on differentiation, and Chen and Lin (2021) and Ndandula and Mwanza (2024) on market niche, limiting understanding of their combined effects. Additionally, many studies have been conducted in different geographical contexts such as Turkey (Koyluoglu & Dogan, 2021), Indonesia (Tintara, 2020), Malaysia (Alshorman, 2020), Nigeria (Nseobot et al., 2023), and Ethiopia (Kenea, 2020), reducing their applicability to Kenya. Theoretically, studies such as Kinyua et al. (2019) and Gitau and Mang'ana (2021) apply individual frameworks without integrating broader theories like RBV, Porter's model, innovation, and segmentation. Consequently, there exists a gap in examining the integrated effects of innovative strategies on SME performance within Kenya's cosmetics sector.

Objective of the Study

The general objective of this study was to examine the influence of innovation strategies on the performance of small and medium enterprise in the cosmetics sector in Nairobi County, Kenya

THEORETICAL REVIEW

This section comprises theories underpinning the study.

Diffusion of Innovation Theory

The Diffusion of Innovation Theory was developed by Rogers in 1962. The theory categorizes adopters into innovators, early adopters, early majority, late majority, and laggards, and emphasizes that early adoption of innovation enhances competitive advantage and firm performance (Nambisan et al., 2019; Santoro et al., 2021). The theory posits that innovation adoption is influenced by factors such as relative advantage, compatibility, complexity, trialability, and observability. It also highlights the role of communication channels and social networks in facilitating the diffusion process (Greenhalgh et al., 2018). In strategic management, innovation strategies are viewed as critical mechanisms through which firms adapt to environmental changes and enhance performance (Damanpour et al., 2018).

The diffusion of innovation theory assumes that innovation adoption follows a predictable and structured process over time, where individuals or organizations move through stages from awareness to adoption (Rogers, 2019). It further assumes that adopters can be categorized into distinct groups: innovators, early adopters, early majority, late majority, and laggards based on their willingness to embrace new ideas. The theory also assumes that the rate of adoption is influenced by specific characteristics of the innovation, including relative advantage, compatibility, complexity, trialability, and observability, which determine how quickly an innovation spreads within a social system (Greenhalgh et al., 2018). Additionally, it presumes that communication channels and social networks play a critical role in influencing awareness and adoption decisions among potential users.

Another key assumption is that organizations and individuals are rational decision-makers who evaluate innovations based on perceived benefits and costs before adopting them. The theory further assumes that the external environment is relatively stable, allowing innovations to diffuse progressively without major disruptions. However, in modern contexts, this assumption is often challenged by rapid technological change and market uncertainty (Nambisan et al., 2019). The diffusion of innovation theory has been widely criticized for its linear and deterministic view of innovation adoption, as it assumes a predictable progression from awareness to adoption, whereas in reality the process is often complex and iterative (Greenhalgh et al., 2018).

The theory also overemphasizes individual decision-making while underestimating the influence of organizational, institutional, and environmental factors such as resource constraints and regulatory conditions, particularly in developing economies (Adeleye et al., 2020). Additionally, the assumption that adopters are rational decision-makers overlooks the impact of social, cultural, and behavioral influences on adoption decisions (Nambisan et al., 2019). Furthermore, the classification of adopters into fixed categories is considered overly simplistic, as adoption behavior varies across contexts. Overall, the theory is limited in explaining innovation in dynamic environments where continuous adaptation and complex innovation ecosystems are required (Teece, 2018).

Empirical studies demonstrate the importance of innovation strategies in enhancing firm performance. Globally, Nambisan et al. (2019) highlight the role of digital innovation in transforming business models, while Santoro et al. (2021) show that innovation strategies significantly improve firm adaptability and performance. In emerging markets, Boso et al. (2021) found that innovation capabilities enhance competitiveness. Regionally, Adeleye et al. (2020) demonstrate that African firms leverage innovation to overcome institutional challenges. In Kenya, Cherono and Njeru (2024) established that innovation strategies significantly influence SME performance, while Kenea (2020) highlighted the role of innovation in improving organizational productivity.

The relevance of this theory to the study lies in its ability to explain how innovation strategies enable firms to adapt, compete, and enhance performance. Cosmetics SMEs in Nairobi adopt innovations such as new product formulations, digital marketing, and modern production techniques, which improve efficiency, customer satisfaction, and competitiveness.

Conceptual Framework

The conceptual framework depicts the relationship between the independent variable and the dependent variable under study.

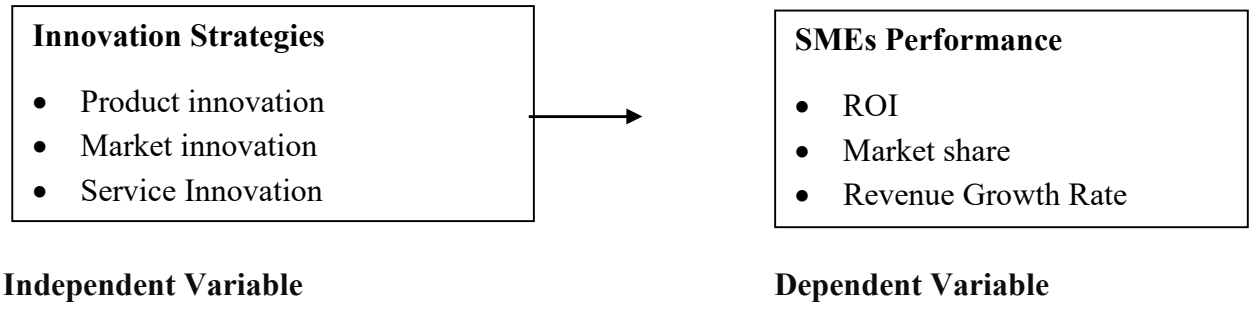

Figure 2.1. Conceptual Framework

Empirical Review

Koyluoglu and Dogan (2021) conducted a study to examine the impact of innovation strategies on business performance among high-technology companies in Turkey over the period 2016–2020. The study adopted a quantitative survey research design, targeting managers of firms operating in the high-technology sector. A sample of 346 managers was surveyed, and data were collected using structured questionnaires. The data were analyzed using JAMOVI and SPSS version 26.0, where exploratory factor analysis (EFA) and confirmatory factor analysis (CFA) were applied to validate constructs, while Pearson correlation and multiple regression analysis were used as the model specification to test the relationships between innovation strategies and business performance. The findings revealed that innovation strategies have a positive and statistically significant effect on business performance.

Makgopa (2020) conducted a study to assess the influence of service innovation practices on business performance in South Africa over the period 2015–2019. The study adopted a quantitative research design targeting firms operating within the service sector. The population comprised managers and employees from selected service-based organizations, from which a representative sample was drawn using appropriate sampling techniques. Data were collected using a structured questionnaire administered to respondents. The study employed multiple regression analysis as the model specification to examine the relationship between service innovation practices and business performance, with preliminary analysis conducted using descriptive statistics. The findings revealed that service innovation practices had a positive and statistically significant effect on business performance.

Cherono and Njeru (2024) conducted a study on the effect of strategic management practices on the performance of SMEs in Nairobi County, Kenya, over the period 2018–2022. The study adopted an explanatory research design targeting registered SMEs within Nairobi County. The population comprised SME owners and managers, from which a representative sample was selected using appropriate sampling techniques. Data were collected using a structured questionnaire administered to respondents. The study employed multiple regression analysis to examine the relationship between innovative strategies and firm performance. The findings revealed that innovative strategies had a positive and statistically significant effect on SME performance, as firms that embraced innovation were better able to adapt to market changes and improve competitiveness.

James, Omari, and Nyanga'u (2021) conducted a study to examine the effect of innovative strategies on the performance of Equator Bottlers Company Limited in Kisumu County. The study was anchored on Vroom's Expectancy Theory and Rogers' Diffusion of Innovation Theory, and adopted a correlational research design. The target population comprised 845 employees of the company, from which a sample of 387 respondents was selected using stratified and simple random sampling techniques. Data were collected using structured questionnaires. The data were analyzed using descriptive statistics, including mean and standard deviation, while inferential analysis involved correlation and regression techniques to establish relationships between variables. The findings revealed that innovative strategies had a significant effect on firm performance, although they were associated with increased production costs.

RESEARCH METHODOLOGY

The study adopted a descriptive research design, which enables the systematic examination of strategic positioning and its effects on SME performance without manipulating variables (Kothari, 2018). The target population of this study comprised of small and medium-sized cosmetics enterprises operating within Nairobi City County, Kenya. These included businesses involved in the production, wholesale, and retail of cosmetic and beauty products. According to the Nairobi

County Business Registry (2024), there are 600 registered cosmetics SMEs in Nairobi City County, Kenya. The sampling frame for this study was derived from the list of 600 registered cosmetics SMEs in Nairobi City County obtained from the Nairobi County Business Registry (2024). This study adopted a stratified random sampling technique, where the population of cosmetics SMEs will be divided into three strata based on business categories: manufacturing, wholesale, and retail SMEs.

The study utilized a structured questionnaire as the primary instrument for data collection. A pilot study was conducted before the main data collection to test the reliability, validity, and clarity of the research instruments. The study employed both descriptive and inferential methods. The following regression model was used for quantitative procedures examining the relationship between independent and dependent variables.

$$Y = \alpha + \beta 1X1 + Ɛ \text{.....Equation 1}$$

Where:
Y represents the performance
α represents a constant
β1 represents the beta coefficients
XI represents differentiation
Ɛ represents the error term

RESEARCH FINDINGS AND DISCUSSION

This section presents, analyzes, and discusses the findings of the study on the effect of strategic positioning on the performance of cosmetics small and medium enterprises (SMEs) in Nairobi City County, Kenya.

Pilot Study Results

A pilot study was conducted before the main survey to test the reliability, validity, and clarity of the research instruments. 24 respondents constituting 10% of the projected sample size of 240 of the cosmetics SMEs, drawn from Nairobi City County, but excluded from the final analysis to avoid bias.

Response Rate

A total of 240 questionnaires were administered to business managers drawn from the selected cosmetics SMEs in Nairobi City County. Table 4.1 presents the results

Table 4.1: Response Rate

Response Category	Frequency	Percentage (%)
Returned Questionnaires	218	90.8
Unreturned/Incomplete Questionnaires	22	9.2
Total	**240**	**100**

The response rate results presented in Table 4.1 indicate that 218 out of the 240 questionnaires administered were successfully completed and returned, representing a response rate of 90.8%.

Demographic Characteristics of Respondents

This section presents the demographic characteristics of the respondents who participated in the study.

Gender of the Respondents

The distribution of respondents by gender is presented in Table 4.2.

Table 4.2: Distribution of Respondents by Gender

Gender	Frequency	Percentage (%)
Male	124	56.9
Female	94	43.1
Total	218	100.0

The findings indicate that 124 (56.9%) of the respondents were male, while 94 (43.1%) were female.

Age of the Respondents

The age distribution of the respondents is presented in Table 4.3.

Table 4.3: Distribution of Respondents by Age

Age Category (Years)	Frequency	Percentage (%)
Below 30	34	15.6
31-40	87	39.9
41–50	63	28.9
Above 50	34	15.6
Total	218	100.0

The results show that the majority of the respondents, 87 (39.9%), were aged between 31 and 40 years, followed by 63 (28.9%) aged between 41 and 50 years. Respondents below 30 years and those above 50 years each accounted for 15.6

Highest Level of Education

The study sought to establish the highest level of education attained by the respondents. The distribution of respondents by the highest level of education is presented in Table 4.4.

Table 4.4: Highest Level of Education

Education Level	Frequency	Percentage (%)
Certificate	28	12.8
Diploma	61	28.0
Bachelor's Degree	98	45.0
Postgraduate Degree	31	14.2
Total	**218**	**100.0**

The findings reveal that 98 (45.0%) of the respondents possessed a bachelor's degree, followed by 61 (28.0%) with diploma qualifications. Respondents with postgraduate qualifications accounted for 14.2%, while those with certificate qualifications constituted 12.8%.

Management Position

The distribution of respondents by management position is presented in Table 4.5.

Table 4.5: Management Position of Respondents

Position	Frequency	Percentage (%)
Business Manager	132	60.6
Operations Manager	48	22.0
Branch Manager	22	10.1
General Manager	16	7.3
Total	**218**	**100.0**

The findings indicate that the majority of the respondents, 132 (60.6%), were business managers, followed by operations managers at 22.0%. Branch managers and general managers accounted for 10.1% and 7.3%, respectively.

Years of Work Experience

The distribution of respondents by years of work experience is presented in Table 4.6.

Table 4.6: Years of Work Experience

Years of Experience	Frequency	Percentage (%)
Less than 5 years	39	17.9
5–10 years	96	44.0
11–15 years	54	24.8
Above 15 years	29	13.3
Total	**218**	**100.0**

The results indicate that 96 (44.0%) of the respondents had worked in the cosmetics industry for between 5 and 10 years, while 54 (24.8%) had between 11 and 15 years of experience. Respondents with less than five years of experience accounted for 17.9%, whereas those with more than 15 years represented 13.3%.

Business Category

The distribution of respondents by business category is presented in Table 4.7.

Table 4.7: Distribution of Respondents by Business Category

Business Category	Frequency	Percentage (%)
Manufacturing	44	20.2
Wholesale	66	30.3
Retail	108	49.5
Total	**218**	**100.0**

The findings indicate that nearly half of the respondents, 108 (49.5%), were drawn from retail cosmetics SMEs, followed by 66 (30.3%) from wholesale businesses and 44 (20.2%) from manufacturing firms.

Validity of Research Instruments

In this study, the validity of the questionnaire was assessed through content validity and construct validity to ensure that the instrument adequately captured

Factor Analysis

The analysis was performed using Principal Component Analysis (PCA) with Varimax rotation. The results are indicated in Table 4.8.

Table 4.8: Summary of Factor Analysis Results

Variable	KMO	Loading Range	Average Factor Loading	Decision
Innovation Strategies	0.772	0.708–0.886	0.800	Retained
SME Performance	0.719	0.688–0.851	0.776	Retained

The summary results indicate that the constructs attained KMO values above the minimum threshold of 0.50 recommended by Kaiser (1974), confirming sampling adequacy for factor analysis.

Reliability Results

The results are depicted in Table 4.9

Table 4.9. Overall Reliability Coefficients (Cronbach's Alpha)

Dimensions	No. of Items	Cronbach's Alpha Coefficient
Performance	5	0.804
Innovation Strategies	6	0.873

The results presented in Table 4.9 indicate that the study constructs attained Cronbach's Alpha coefficients above the minimum recommended threshold of 0.70 suggested by Nunnally and Bernstein (1994).

Descriptive Statistics Results

Descriptive statistics were used to summarize and describe the respondents' perceptions of the study variables using means and standard deviations.

Innovation Strategies

This section presents the descriptive statistics for innovation strategies variable of the study. The results are presented in Table 4.10

Table 4.10: Descriptive Statistics for Innovation Strategies

Statement	Mean	Std. Dev
1. The firm regularly introduces new products.	4.31	0.652
2. Existing products are continuously improved.	4.27	0.681
3. The firm is adopting new marketing approaches	4.19	0.734
4. Innovative marketing strategies are used to reach customers		
5. The firm improves its delivery service to customers	4.23	0.706
6. Customer service processes are regularly enhanced	4.11	0.781
Composite Mean	4.16	0.752
	4.21	
Composite Standard Deviation		**0.718**

The results in Table 4.10 indicate that respondents agreed that innovation strategies were widely implemented by cosmetics SMEs, as reflected by a composite mean of 4.21 and a composite standard deviation of 0.718. The highest mean was recorded for regularly introducing new products (M = 4.31, SD = 0.652), followed by continuous improvement of existing products (M = 4.27, SD = 0.681). Respondents also agreed that firms employ innovative marketing strategies (M = 4.23, SD = 0.706), adopt new marketing approaches (M = 4.19, SD = 0.734), regularly enhance customer service processes (M = 4.16, SD = 0.752), and improve delivery services (M = 4.11, SD = 0.781). Overall, the findings suggest that innovation strategies, particularly product innovation, are widely adopted by cosmetics SMEs to enhance competitiveness and improve performance

The findings are consistent with those of Cherono and Njeru (2024), who established that continuous product innovation and innovative marketing practices significantly enhance the competitiveness and performance of SMEs by enabling firms to respond effectively to changing customer preferences. Similarly, Kisaka and Mwaura (2022) found that firms that consistently improve products and adopt innovative business processes experience higher customer satisfaction and increased market performance. The findings also concur with Santos and Ribeiro (2021), who reported that innovation in products, marketing, and customer service strengthens firms' competitive advantage by improving customer value and facilitating sustainable business growth. These findings demonstrate that innovation is a critical strategic positioning practice that enables cosmetics SMEs to remain competitive in a dynamic business environment.

SME Performance

This section presents the descriptive statistics for SME performance, the dependent variable of the study. The results are presented in Table 4.11.

Table 4.11: Descriptive Statistics for SME Performance

Statement	Mean	Std. Dev
1. The firm has experienced growth in sales over time	4.19	0.723
2. The business has maintained or increased its market share in the last five years.	4.14	0.751
3. The firm's profitability has improved in recent years	4.11	0.778
4. Customer satisfaction has improved over time	4.27	0.684
5. The firm's financial stability has improved as a result of strategic positioning	4.08	0.794
Composite Mean	**4.16**	
Composite Standard Deviation		**0.746**

The results presented in Table 4.11 indicate that respondents agreed that the performance of cosmetics SMEs had improved, as reflected by a composite mean of 4.16 and a composite standard deviation of 0.746. Customer satisfaction recorded the highest mean (M = 4.27, SD = 0.684), followed by growth in sales over time (M = 4.19, SD = 0.723) and maintenance or increase in market share (M = 4.14, SD = 0.751). Respondents also agreed that the firms had experienced improvements in profitability (M = 4.11, SD = 0.778) and financial stability (M = 4.08, SD = 0.794). Overall, the findings suggest that the cosmetics SMEs had achieved positive performance, particularly in customer satisfaction and sales growth, which may be attributed to the adoption of effective strategic positioning practices.

The findings are consistent with those of Wanyoike and Mungai (2023), who found that SMEs implementing effective competitive strategies experienced significant improvements in customer

satisfaction, sales growth, and profitability. Similarly, Akinyi and Wambua (2022) established that firms adopting customer-oriented business strategies reported enhanced financial performance and increased market share due to improved customer retention and loyalty. The findings also concur with Dess, McNamara, Eisner, and Lee (2021), who argued that organizations that align their strategic positioning with customer needs are more likely to achieve superior organizational performance through increased sales, profitability, customer satisfaction, and long-term financial stability. These findings reinforce the view that effective strategic positioning contributes significantly to improved business performance and sustainable competitiveness among cosmetics SMEs.

Descriptive Statistics of Secondary Data

This section presents the descriptive statistics of the secondary data collected from the financial records of the sampled cosmetics SMEs. The secondary data were used to provide objective measures of SME performance based on return on assets (ROA), market share, and revenue growth over the period 2020–2024. The descriptive statistics include the minimum, maximum, mean, and standard deviation, providing an overview of the distribution and variability of the performance indicators. The results are presented in Table 4.12.

Table 4.12: Descriptive Statistics of Secondary Data

Performance Indicator	Obs.	Minimum	Maximum	Mean	Std. Dev.
Return on Assets (ROA) (%)	218	1.80	14.60	6.82	2.47
Market Share (%)	218	8.50	48.30	28.64	8.31
Revenue Growth (%	218	-3.20	18.90	7.43	4.12

The findings in Table 4.12 indicate that the sampled cosmetics SMEs recorded an average return on assets (ROA) of 6.82% (SD = 2.47), with values ranging from 1.80% to 14.60%, suggesting variations in firms' ability to generate profits from their assets. The average market share was 28.64% (SD = 8.31), indicating differences in the competitive position of the firms within the cosmetics industry. Revenue growth recorded a mean of 7.43% (SD = 4.12), with values ranging from -3.20% to 18.90%, implying that while some firms experienced declining revenues, others achieved substantial growth during the study period. Overall, the descriptive statistics demonstrate considerable variation in the financial performance of cosmetics SMEs, justifying the need to examine the influence of strategic positioning on firm performance.

These findings are consistent with those of Muriithi and Waweru (2022), who found that SMEs exhibit considerable variation in profitability, market share, and revenue growth due to differences in strategic capabilities, market orientation, and resource utilization. Similarly, Njuguna and Kibet (2023) established that firms adopting effective competitive strategies generally reported higher returns on assets and stronger market positions than firms with less developed strategic capabilities. The findings also concur with Barney and Hesterly (2021), who argued that differences in firm resources and strategic positioning result in varying levels of organizational

performance, with firms possessing superior strategic capabilities achieving higher profitability, stronger market positions, and sustained revenue growth. These findings support the argument that variations in financial performance among cosmetics SMEs are partly attributable to differences in the strategic positioning practices adopted by individual firms.

Performance Trend Line

This section presents the trend analysis of the performance of cosmetics SMEs in Nairobi City County over the period 2019–2024 using secondary financial data.

Trend Line for ROA

The trend line is presented in Figure 4.1.

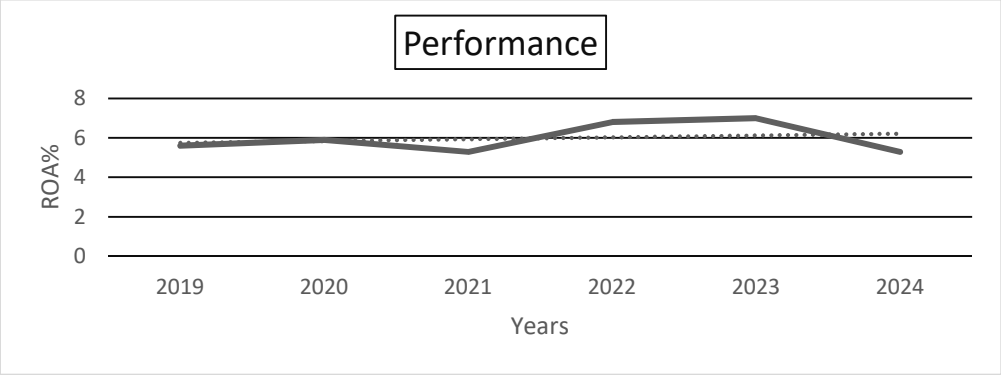

Figure 4.1Trend Line for ROA

Figure 4.1 shows that the Return on Assets (ROA) of the sampled cosmetics SMEs fluctuated between 2019 and 2024, but generally exhibited an upward trend. ROA increased slightly from 5.6% in 2019 to 5.9% in 2020, declined to 5.3% in 2021, before rising significantly to 6.8% in 2022 and peaking at 7.0% in 2023. However, ROA declined to 5.3% in 2024, suggesting a reduction in profitability during the final year of the study. Despite these fluctuations, the positive trend line indicates an overall improvement in the ability of cosmetics SMEs to generate profits from their assets over the study period, reflecting gradual enhancement in financial performance.

Trend Line for Market Share

The trend line is presented in Figure 4.2.

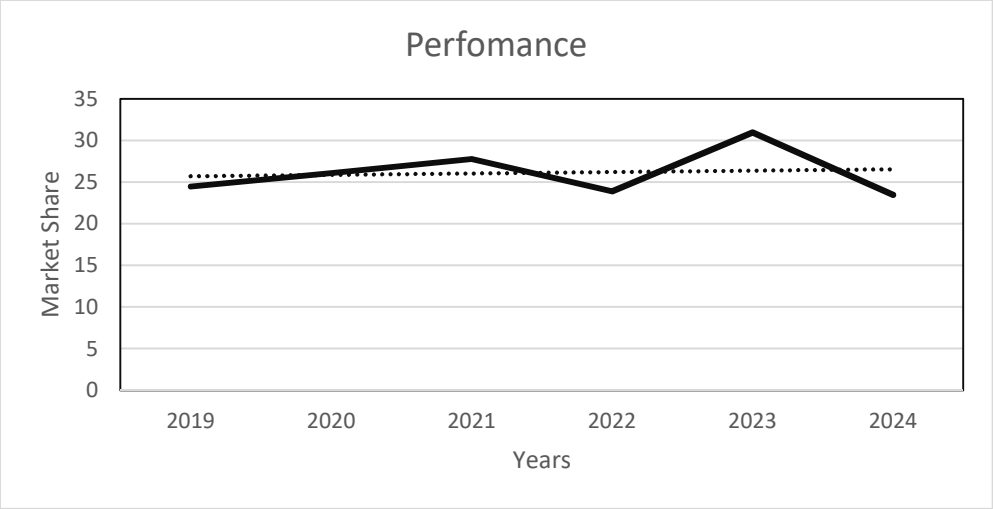

Figure 4.2 Trend Line for Market Share

Figure 4.2 illustrates the trend in market share of the sampled cosmetics SMEs between 2019 and 2024. The results indicate that market share fluctuated over the study period but generally exhibited a positive trend. Market share increased from approximately 24.5% in 2019 to 27.8% in 2021, before declining to 23.8% in 2022. It subsequently rose sharply to its highest level of approximately 31.0% in 2023, before declining again to about 23.5% in 2024.

Despite these fluctuations, the positive trend line indicates an overall improvement in the market position of the sampled cosmetics SMEs over the study period. The increase in market share suggests that the firms progressively strengthened their competitive position by attracting and retaining more customers. However, the decline observed in 2024 may indicate increased competition, changing consumer preferences, or market dynamics that reduced the firms' market share during the final year of the study. Overall, the trend suggests that the cosmetics SMEs experienced gradual improvement in market competitiveness despite short-term fluctuations.

Trend Line for Revenue Growth

The trend is presented in Figure 4.3.

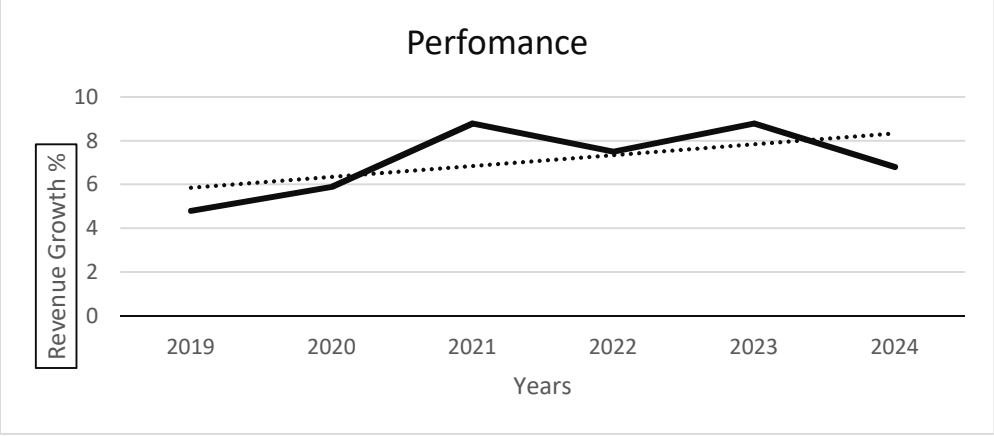

Figure 4.3 Trend Line for Revenue Growth

The results indicate that revenue growth generally increased over the study period, although some fluctuations were observed. Revenue growth rose from approximately 4.8% in 2019 to 5.9% in 2020, before increasing sharply to 8.8% in 2021. It then declined slightly to about 7.5% in 2022, increased again to 8.8% in 2023, and finally declined to approximately 6.8% in 2024.Despite these fluctuations, the upward-sloping trend line indicates an overall improvement in the revenue growth of the sampled cosmetics SMEs over the six-year period. The increase in revenue growth suggests that the firms progressively enhanced their sales performance and business expansion, possibly through effective strategic positioning practices. However, the decline observed in 2024 may reflect changing market conditions, increased competition, or rising operational costs that slowed revenue growth during the final year of the study. Overall, the trend demonstrates that the sampled cosmetics SMEs experienced sustained growth in revenue over time despite periodic fluctuations.

Inferential Analysis

This section presents the inferential statistical analysis conducted to examine the relationship between innovation strategies and the performance of cosmetics SMEs in Nairobi City County.

Correlation Analysis

Pearson's Product–Moment Correlation analysis was conducted to determine the direction and strength of the relationship between the study variables. The results are presented in Table 4.13.

Table 4.13: Pearson Correlation Matrix

Variable	SME Performance	Innovation Strategies
SME Performance	1.000	
Innovation Strategies	0.437**	1.000

Note: Correlation is significant at the 0.01 level (2-tailed).

Innovation strategies exhibited the strongest positive relationship with SME performance ($r = 0.742$, $p < 0.01$). This indicates that increased adoption of product, market, and service innovations is associated with improved SME performance.

Model Summary

The model summary was generated to determine the overall explanatory power of the regression model in predicting the performance of cosmetics SMEs. The results are presented in Table 4.14.

Table 4.14 Model Summary

Model	Multiple R	R Square (R^2)	Adjusted R-Square	Std. Error of the Estimate
1	0.831	0.691	0.685	0.437

a. Predictors: (Constant), Innovation Strategies.

The results in Table 4.14 indicate that the multiple correlation coefficient (R = 0.831) shows a strong positive relationship between the combined innovation strategies variable and SME performance. The coefficient of determination ($R^2 = 0.691$) indicates that 69.1% of the variation in SME performance is explained by innovation strategies while the remaining 30.9% is attributable to other factors not included in the model.

Analysis of Variance (ANOVA)

Analysis of Variance (ANOVA) was conducted to determine the overall statistical significance of the regression model The results are presented in Table 4.15.

Table 4.15: ANOVA Results

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	92.638	4	23.159	121.253	0.000[b]
Residual	40.676	213	0.191		
Total	133.314	217			

a. Dependent Variable: SME Performance

b. Predictors: (Constant), Innovation Strategies.

The ANOVA results presented in Table 4.15 indicate that the regression model was statistically significant ($F(4, 213) = 121.253$, $p < 0.001$). Since the p-value is less than the 0.05 level of significance, the null hypothesis that innovation strategies has no significant effect on SME performance is rejected. Therefore, the regression model is appropriate for predicting SME performance and provides a good fit to the observed data.

Regression Coefficient Results

Multiple linear regression analysis was conducted to determine the effect of innovation strategies on the performance of cosmetics SMEs in Nairobi City County. The results are presented in Table 4.16.

Table 4.16: Regression Coefficient Results

Model	Unstandardized Coefficients (B)	Std. Error	Standardized Coefficients (Beta)	t-value	Sig. (p-value
(Constant)	0.524	0.183	-	2.863	0.005
Innovation Strategies	0.337	0.058	0.366	5.810	0.000

The regression results indicate that the constant ($\beta_0 = 0.524$) is positive and statistically significant ($t = 2.863$, $p = 0.005$). This implies that when innovation strategies is held constant (that is, their values are zero), the predicted performance of cosmetics SMEs would be 0.524 units. The regression results revealed that innovation strategies had a positive and statistically significant effect on SME performance ($\beta = 0.337$, $t = 5.810$, $p < 0.001$). The study rejected the null hypothesis and concluded that innovation strategies significantly improves the SMEs performance.The findings imply that a one-unit increase in innovation strategies is associated with a 0.337-unit increase in SME performance, holding all other variables constant. This indicates that continuous product innovation, innovative marketing approaches, and improved service delivery significantly enhance the performance of cosmetics SMEs. The findings support the Diffusion of Innovation Theory, which posits that the adoption and diffusion of innovations enable organizations to improve efficiency, respond to changing customer needs, and achieve competitive advantage. Similar findings include those of Chen and Lin (2021), Ndandula and Mwanza (2024) and Cherono and Njeru (2024) all who agreed that firms adopting innovation-oriented strategies experienced higher profitability, increased market share, and improved operational performance than firms with low levels of innovation.However, the findings contradict those of Kenea (2020) who found that innovation strategies did not significantly influence the performance due to inadequate financial resources and limited technological capabilities. Similarly, Alshorman (2020) reported that innovation had an insignificant effect on the performance of Malaysian SMEs, arguing that the high costs associated with innovation and slow market adoption limited its contribution to organizational performance.

Based on your regression coefficient, the estimated multiple regression model is:

$$\mathbf{Y = 0.524 + 0.337X_1}$$

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

This section presents the summary of the study findings, conclusions, and recommendations based on the research objective.

Summary of Findings

The study sought to determine the effect of innovation strategies on SME performance. The study established that innovation strategies positively influenced the performance of cosmetics SMEs and emerged as the most influential strategic positioning practice. Firms that continuously introduced new products, adopted innovative marketing approaches, and improved service delivery were found to achieve superior performance. The findings underscore the importance of innovation in enhancing competitiveness and promoting sustainable business growth.

Conclusions of the Study

The study concludes that innovation strategies are the most influential strategic positioning practice affecting the performance of cosmetics SMEs. Continuous investment in product innovation, innovative marketing approaches, and improved service delivery enables firms to respond effectively to changing customer preferences and evolving market conditions. Innovation enhances product competitiveness, strengthens customer relationships, and creates new market opportunities that support business growth. The study therefore concludes that cosmetics SMEs that embrace innovation are more likely to achieve sustainable competitive advantage, improve organizational performance, and remain resilient in an increasingly competitive business environment.

Recommendations of the Study

The study recommends that cosmetics SMEs should prioritize innovation as a core business strategy by investing in continuous product development, innovative marketing approaches, and enhanced customer service. Firms should allocate resources towards research and development to identify emerging consumer needs and develop innovative cosmetic products that meet changing market demands. Additionally, SMEs should leverage digital marketing platforms, social media, and e-commerce technologies to expand market reach and strengthen customer engagement. Government agencies and SME support institutions should also provide innovation grants, technical training, and business incubation programmes to promote innovation among cosmetics SMEs.

Areas for Further Research

First, future studies should examine the effect of innovation strategies on the performance of SMEs operating in other sectors, such as manufacturing, agribusiness, hospitality, and information and communication technology (ICT), to determine whether the findings are consistent across different industries. Second, future researchers should replicate the study in other counties in Kenya or undertake comparative studies across counties to establish whether geographical, economic, and socio-cultural differences influence the relationship between strategic positioning and SME performance.

Third, the regression model explained 69.1% of the variation in the performance of cosmetics SMEs, implying that 30.9% of the variation was attributable to other factors not considered in the current study. Future studies should therefore investigate additional determinants of SME performance, such as entrepreneurial orientation, organizational culture, digital transformation, access to finance, leadership style, competitive intensity, technological capability, and customer relationship management.

Finally, future researchers are encouraged to employ longitudinal or mixed-methods research designs to examine how innovation strategies evolve over time and to generate deeper insights into their long-term effects on SME performance. Such studies would complement the findings of the present study and contribute to the development of more effective strategies for enhancing the competitiveness and sustainability of SMEs.

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