

Influence of Artificial Intelligence Applications on the Growth of Selected Medium Enterprises in Meru County, Kenya

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Abstract

Medium enterprises contribute to employment creation, innovation, income generation, and local economic development, yet many continue to experience slow growth in competitive and technology-driven markets. Artificial intelligence applications have become important digital capabilities because they support customer analytics, demand forecasting, automated customer responses, predictive insights, and data-driven decision-making. However, empirical evidence on the specific contribution of artificial intelligence applications to the growth of medium enterprises at the county level in Kenya remains limited. This study examined the effect of artificial intelligence applications on the growth of selected medium enterprises in Meru County, Kenya. The study was anchored on the Resource-Based View Theory and adopted a positivist research philosophy, quantitative research approach, and explanatory research design. The target population comprised 420 enterprise owners and managers, from which a sample of 205 respondents was selected through stratified random sampling. Data were collected using structured questionnaires and analyzed using descriptive statistics, Pearson Product Moment Correlation, and simple linear regression. The study attained a response rate of 72.2%. The findings established a positive and statistically significant relationship between artificial intelligence applications and enterprise growth ($r = .566$, $p = .000$). Regression analysis further showed that artificial intelligence applications explained 32.0% of the variation in enterprise growth ($R^2 = .320$) and had a positive significant effect ($B = .548$, $\beta = .566$, $t = 8.303$, $p = .000$). The study concluded that artificial intelligence applications enhance enterprise growth by improving business intelligence, customer understanding, market responsiveness, forecasting, and operational decision-making. The study recommends affordable AI training, digital advisory support, and progressive adoption of analytics, forecasting, and automated customer support tools among medium enterprises.

Keywords: *Artificial intelligence applications, disruptive technology, medium enterprises, enterprise growth, business intelligence, Kenya.*

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1. Introduction

Medium enterprises play a central role in economic transformation by supporting employment creation, value addition, productivity, innovation, and local income generation (Kenya National Bureau of Statistics, 2023; OECD, 2023). Their growth is commonly reflected through sales expansion, profit improvement, customer growth, market reach, asset accumulation, product diversification, and employment creation (Kraus et al., 2022; Verhoef et al., 2021). In increasingly competitive environments, sustainable enterprise growth requires firms to adopt technologies that improve efficiency, strengthen market responsiveness, and support informed managerial decisions (Li et al., 2022; Nambisan et al., 2023).

Disruptive technologies have become important drivers of enterprise competitiveness because they transform how firms communicate with customers, analyze market information, manage transactions, and organize internal operations (UNCTAD, 2021; World Bank, 2022). Artificial intelligence applications are especially important because they allow enterprises to use customer data analytics, demand forecasting, automated responses, digital data analysis, chatbots, and predictive insights to improve operational and strategic decisions (Verhoef et al., 2021; Wamba et al., 2021). These tools enable enterprises to interpret large volumes of information, anticipate customer needs, reduce delays in service delivery, and respond more effectively to market changes (Chatterjee et al., 2022; Dwivedi et al., 2023).

Globally, firms that integrate artificial intelligence and digital analytics into business processes achieve improved productivity, innovation, customer relationship management, and competitive positioning (Wamba et al., 2021; Chatterjee et al., 2022). In emerging economies, digital technologies help enterprises overcome market-access barriers and enhance decision-making, although adoption remains constrained by infrastructure, skills, and affordability challenges (Autio et al., 2021; International Finance Corporation, 2022). In Kenya, medium enterprises increasingly use digital tools to improve operations and competitiveness, but adoption is uneven outside major urban centres because of limited digital literacy, financial constraints, and weak technological infrastructure (Kenya National Bureau of Statistics, 2023; Kimani & Kinyua, 2024).

In Meru County, medium enterprises operate across retail trade, agribusiness, manufacturing, services, transport, ICT, construction, finance, tourism, and creative sectors. These enterprises face dynamic market conditions that require faster decision-making, improved customer engagement, and better forecasting. While prior studies have examined digital transformation and enterprise performance, fewer studies have isolated artificial intelligence applications as an independent predictor of enterprise growth in county-level Kenyan contexts (Li et al., 2022; Nambisan et al., 2023). This study therefore examined the influence of artificial intelligence applications on the growth of selected medium enterprises in Meru County, Kenya.

1.1 Problem Statement

Medium enterprises are expected to grow through increased sales, profitability, customer numbers, market share, productive assets, service capacity, and employment creation because they possess more structured management systems and greater resource capability than smaller enterprises (Kenya National Bureau of Statistics, 2023; OECD, 2023). Artificial intelligence applications should support this growth by improving data analysis, demand forecasting, customer interaction, predictive market insights, and strategic decision-making (Verhoef et al., 2021; Wamba et al., 2021).

Despite this expectation, many medium enterprises continue to experience constrained growth, limited market expansion, uneven profitability, and weak scalability, particularly in semi-urban and county-level business environments (World Bank, 2022; Kenya National Bureau of Statistics, 2023). In Kenya, digital technology adoption remains uneven because enterprises outside major urban centres often face limited infrastructure, inadequate digital skills, and financial constraints that restrict effective technology integration (Kenya National Bureau of Statistics, 2023; Kimani & Kinyua, 2024). In Meru County, some enterprises use digital data analysis, automated responses, forecasting tools, and customer analytics, while others continue to rely on conventional decision-making practices that limit efficiency and competitiveness.

Previous studies have linked digital transformation to firm performance, innovation, and competitiveness (Kraus et al., 2022; Verhoef et al., 2021). However, many studies treat digital technologies as a broad construct, focus on large firms, or emphasize mobile money and e-commerce rather than the specific effect of artificial intelligence applications on enterprise growth (Li et al., 2022; Nambisan et al., 2023). Consequently, localized empirical evidence remains limited on how artificial intelligence applications influence the growth of medium enterprises in Meru County. This study addressed this empirical and contextual gap by examining the effect of artificial intelligence applications on the growth of selected medium enterprises in Meru County, Kenya.

1.2 Research Objective

To examine the effect of artificial intelligence applications on the growth of selected medium enterprises in Meru County, Kenya.

1.3 Research Hypothesis

H₀₄: Artificial intelligence applications have no statistically significant effect on the growth of selected medium enterprises in Meru County, Kenya.

2. Literature Review

2.1 Theoretical Review

This study was anchored on the Resource-Based View Theory developed by Barney (1991), which explains that firms achieve superior performance when they possess and effectively deploy resources that are valuable, rare, imperfectly imitable, and organizationally embedded. The theory argues that internal resources and capabilities become sources of competitive advantage when they enable firms to improve efficiency, exploit opportunities, respond to threats, and outperform competitors (Barney, 1991; Priem & Butler, 2001). Contemporary digital transformation literature extends this view by treating data, analytics, digital platforms, and artificial intelligence capabilities as strategic resources that enhance decision-making, innovation, and organizational performance (Verhoef et al., 2021; Wamba et al., 2021).

Within the context of artificial intelligence applications, Resource-Based View Theory explains how customer data analytics, demand forecasting, automated responses, chatbots, digital data analysis, and predictive insights strengthen enterprise capabilities. These applications help firms identify customer preferences, anticipate demand patterns, improve service responsiveness, and make evidence-based decisions, thereby enhancing operational efficiency and market competitiveness (Chatterjee et al., 2022; Dwivedi et al., 2023). Medium enterprises that integrate artificial intelligence into routine operations can therefore convert digital information into actionable knowledge and growth-supporting decisions (Li et al., 2022; Nambisan et al., 2023).

Although Resource-Based View Theory has been criticized for paying limited attention to external institutional constraints and dynamic environmental changes, it remains appropriate for explaining how internal technological capabilities influence enterprise growth (Priem & Butler, 2001; Autio et al., 2021). The theory was therefore suitable for this study because artificial intelligence applications were conceptualized as strategic capabilities that improve business intelligence, operational decision-making, customer management, forecasting, and growth among selected medium enterprises in Meru County.

2.2 Empirical Review

2.2.1 Artificial Intelligence Applications and Growth of Medium Enterprises

Artificial intelligence applications are increasingly recognized as important drivers of enterprise growth because they support business intelligence, customer analytics, demand forecasting, automated communication, predictive insights, and data-driven decision-making (Verhoef et al., 2021; Wamba et al., 2021). Enterprises that use AI-enabled tools are better able to process market information, understand customer behaviour, anticipate product demand, and improve service delivery, thereby strengthening competitiveness and performance (Chatterjee et al., 2022; Dwivedi et al., 2023).

Evidence from global studies shows that artificial intelligence and digital analytics improve organizational performance by enhancing operational capabilities and the quality of strategic decisions. Wamba et al. (2021) established that big data analytics-enabled capabilities positively influence organizational performance by improving business processes and dynamic capabilities. Similarly, Chatterjee et al. (2022) found that AI-integrated customer relationship management systems improve firm performance by strengthening customer interaction, innovation, and managerial decision-making. Verhoef et al. (2021) further observed that digital transformation technologies enhance performance by enabling firms to redesign business models, automate operations, and respond more effectively to customer needs.

Studies on small and medium enterprises also show that digital technologies enhance growth by improving information access, innovation capacity, productivity, and market responsiveness. Kraus et al. (2022) reported that digital transformation improves SME performance by supporting efficiency, innovation, and customer engagement. Li et al. (2022) found that digital transformation among SME entrepreneurs depends on technological capability and supports improved firm performance. Nambisan et al. (2023) also noted that digital platforms and ecosystems enhance enterprise participation in wider markets through improved information flows and connectivity.

Despite these findings, artificial intelligence adoption remains uneven in developing economies because of limited technical expertise, high implementation costs, inadequate infrastructure, and low digital literacy (Autio et al., 2021; International Finance Corporation, 2022). Furthermore, many empirical studies focus on large organizations or broad digital transformation constructs, leaving limited localized evidence on the specific influence of artificial intelligence applications on medium enterprise growth. This study therefore examined the effect of artificial intelligence applications on the growth of selected medium enterprises in Meru County, Kenya.

2.3 Conceptual Framework

The conceptual framework illustrates the proposed relationship between the independent and dependent variables, as presented in Figure 1.

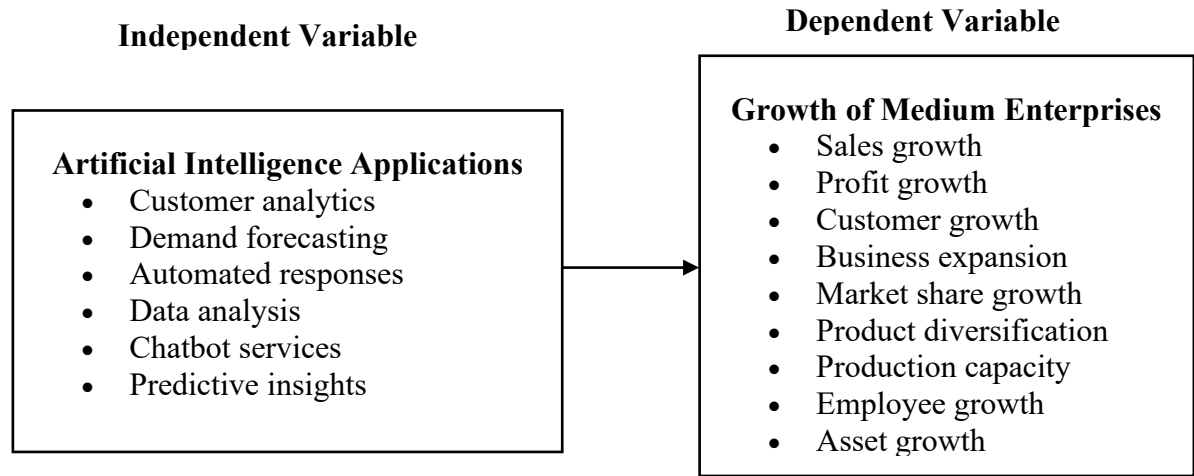


Figure 1: Conceptual Framework

3. Methodology

The study adopted a positivist research philosophy and a quantitative research approach to objectively examine the effect of artificial intelligence applications on the growth of selected medium enterprises in Meru County, Kenya (Creswell & Creswell, 2022; Saunders et al., 2023). An explanatory research design was employed because the study sought to determine the predictive effect of artificial intelligence applications on enterprise growth using measurable data and statistical analysis (Cooper & Schindler, 2021; Field, 2022).

The target population comprised 420 owners and managers of selected medium enterprises operating in Meru County across retail trade, agribusiness, manufacturing and processing, service, transport and logistics, ICT and digital services, construction and building, financial and business support, tourism and hospitality, and creative and artisan sectors. Enterprise owners and managers constituted the respondents because they possessed relevant knowledge of technology adoption, operational decisions, and enterprise growth. A sample of 205 respondents was selected using stratified random sampling, guided by the Yamane (1967) sample-size formula.

Primary data were collected using structured questionnaires containing Likert-scale items measuring artificial intelligence applications and enterprise growth. A pilot study was conducted among medium enterprises in Embu County, which were excluded from the main study. Content validity was established through expert review, while construct validity was confirmed using KMO and Bartlett's Test. Reliability was assessed using Cronbach's Alpha, with values above .700 considered acceptable (Hair et al., 2022). Data were analyzed using SPSS Version 25 through descriptive statistics, Pearson Product Moment Correlation, and simple linear regression. Statistical significance was evaluated at the 5% level (Field, 2022; Wooldridge, 2021).

4. Results and Discussion

4.1 Response Rate

The study targeted 205 owners and managers of selected medium enterprises in Meru County. Out of the 205 questionnaires distributed, 148 were duly completed and returned, giving a response rate of 72.2%. The remaining 57 questionnaires were not returned, representing 27.8%. The response rate was considered adequate for analysis because survey studies generally regard a response rate of 70% and above as sufficient to reduce non-response bias

and improve the reliability of quantitative findings (Mugenda & Mugenda, 2003; Babbie, 2021).

Table 1: Response Rate

Response Category	Frequency	Percentage (%)
Returned questionnaires	148	72.2
Unreturned questionnaires	57	27.8
Total distributed questionnaires	205	100.0

The achieved response rate provided a satisfactory basis for descriptive and inferential analysis. The relatively high return rate was attributed to the use of structured questionnaires, clear instructions to respondents, prior authorization for data collection, and follow-up during the survey period. All returned questionnaires were reviewed for completeness and consistency before coding and analysis. Therefore, the response rate strengthened the representativeness of the sample and enhanced confidence in the reliability of the findings for selected medium enterprises in Meru County.

4.2 Descriptive Analysis of Artificial Intelligence Applications

The study examined the extent to which selected medium enterprises in Meru County applied artificial intelligence tools in their business operations. The findings showed that respondents generally agreed that artificial intelligence applications supported decision-making, customer interaction, forecasting, and market analysis. Digital data analysis tools recorded the highest mean score ($M = 3.69$, $SD = 0.76$), indicating that respondents considered data analysis important in improving managerial decisions. Automated responses for customer inquiries also recorded a high mean score ($M = 3.63$, $SD = 0.81$), suggesting that AI-enabled communication improved customer service and business responsiveness.

The findings further showed that predictive insights helped enterprises anticipate market trends and opportunities ($M = 3.58$, $SD = 0.87$). Customer data analytics tools also supported understanding of customer preferences ($M = 3.54$, $SD = 0.89$). These results imply that medium enterprises were increasingly using AI-related tools to interpret customer behaviour, improve market intelligence, and align business decisions with changing customer needs. Demand forecasting tools recorded a mean of 3.46 ($SD = 0.95$), showing that respondents agreed these tools were useful in planning stock levels, service delivery, and operational capacity.

Chatbots or automated messaging systems recorded the lowest mean score ($M = 3.42$, $SD = 0.98$). Although this was the lowest-rated item, the score still fell within the agreement range. This suggests that automated customer interaction tools were being adopted, but less consistently compared to data analysis tools, automated responses, and predictive insights. Overall, the findings indicate that artificial intelligence applications were gradually being integrated into the operations of medium enterprises, especially in decision-making, forecasting, customer service, and market analysis. The results support the Resource-Based View Theory, which views technological capabilities as strategic resources that enhance competitiveness and enterprise performance (Barney, 1991; Wamba et al., 2021).

Table 2: Descriptive Analysis of Artificial Intelligence Applications

Statement	N	Mean	SD
Customer data analytics tools help understand customer preferences.	148	3.54	0.89
Demand forecasting tools help predict product or service demand.	148	3.46	0.95
Automated responses help answer customer inquiries quickly.	148	3.63	0.81
Digital data analysis tools support business decision-making.	148	3.69	0.76
Chatbots or automated messaging systems support customer interaction.	148	3.42	0.98
Predictive insights help anticipate market trends and opportunities.	148	3.58	0.87

4.3 Descriptive Analysis of Growth of Selected Medium Enterprises

The study assessed the level of growth experienced by selected medium enterprises in Meru County over the previous three years. The findings showed that the enterprises had experienced moderate to relatively high growth across the measured indicators. Growth in the number of customers served recorded the highest mean score ($M = 3.81$, $SD = 0.68$). This suggests that many enterprises had expanded their customer base during the study period. Total sales revenue also recorded a high mean score ($M = 3.76$, $SD = 0.73$), indicating that the increase in customers was accompanied by improved sales performance.

The findings also revealed positive growth in other areas of business performance. Product or service diversification recorded a mean of 3.71 ($SD = 0.76$), showing that many enterprises had expanded or improved their product and service offerings. Production or service delivery capacity recorded a mean of 3.66 ($SD = 0.79$), suggesting that the enterprises had improved their ability to meet customer demand. Net profit growth recorded a mean of 3.63 ($SD = 0.81$), while acquisition of additional assets or equipment recorded a mean of 3.61 ($SD = 0.84$). These findings indicate that enterprise growth was reflected through improved revenue, increased profitability, customer expansion, capacity growth, product diversification, and asset accumulation.

Market share growth recorded a mean of 3.58 ($SD = 0.86$), suggesting that some enterprises had strengthened their competitive position relative to other businesses. Expansion through new branches or increased service outlets recorded a mean of 3.48 ($SD = 0.94$), indicating moderate progress in physical or operational expansion. Growth in the number of employees recorded the lowest mean score ($M = 3.44$, $SD = 0.97$). This implies that employment growth was slower compared to customer growth, sales growth, and service capacity improvement. Overall, the findings show that selected medium enterprises in Meru County experienced positive growth, mainly through customer expansion, increased sales, product diversification, improved capacity, profitability, and asset growth. These indicators are consistent with literature that identifies sales, profitability, market reach, customer expansion, and asset accumulation as key measures of enterprise growth (Kraus et al., 2022; Verhoef et al., 2021).

Table 3: Descriptive Analysis of Growth of Selected Medium Enterprises

Statement	N	Mean	SD
Total sales revenue has grown over the past three years.	148	3.76	0.73
Net profit levels have grown over the past three years.	148	3.63	0.81
The number of customers served has increased over the past three years.	148	3.81	0.68
The business has expanded operations through branches or service outlets.	148	3.48	0.94
The business has increased market share relative to competitors.	148	3.58	0.86
The business has diversified products or services.	148	3.71	0.76
Production or service delivery capacity has increased.	148	3.66	0.79
The number of employees has increased.	148	3.44	0.97
The business has acquired additional assets or equipment.	148	3.61	0.84

4.4 Bivariate Correlation Analysis

The results presented in Table 4 show a positive and statistically significant relationship between artificial intelligence applications and the growth of selected medium enterprises ($r = .566$, $p = .000$). This means that increased use of artificial intelligence applications was associated with higher levels of enterprise growth. The relationship was moderate and positive, suggesting that enterprises that applied AI-related tools more effectively were more likely to report better growth outcomes.

The findings imply that customer analytics, demand forecasting tools, automated responses, digital data analysis, chatbots, and predictive insights contribute to enterprise growth by improving how businesses understand customers, anticipate demand, and make operational decisions. These tools enable enterprises to respond more quickly to market changes, improve customer communication, and strengthen managerial decision-making. As a result, artificial intelligence applications may support growth through improved sales revenue, customer expansion, market share, service capacity, product diversification, and asset acquisition.

The results are consistent with previous studies, which found that AI-enabled analytics and digital transformation improve organizational performance, innovation, and decision-making quality (Wamba et al., 2021; Chatterjee et al., 2022). The findings also support the Resource-Based View Theory, which argues that valuable technological capabilities can improve organizational competitiveness and performance when effectively utilized (Barney, 1991; Verhoef et al., 2021). Therefore, strengthening artificial intelligence applications is important in promoting sustainable growth among selected medium enterprises in Meru County.

Table 4: Pearson Correlation Analysis

Category	X ₄	Y
Artificial Intelligence Applications (X)		
Pearson Correlation	1	
Sig. (2-tailed)		
N	148	
Growth of Selected Medium Enterprises (Y)		
Pearson Correlation	.566**	1
Sig. (2-tailed)	.000	
N	148	148

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

4.5 Bivariate Linear Regression Analysis

Bivariate linear regression analysis was conducted to determine whether artificial intelligence applications significantly influenced the growth of selected medium enterprises in Meru County. The null hypothesis (H_0) stated that artificial intelligence applications have no statistically significant effect on enterprise growth. The model summary results in Table 5 show a correlation coefficient (R) of .566, indicating a moderate positive relationship between artificial intelligence applications and enterprise growth. The coefficient of determination ($R^2 = .320$) shows that artificial intelligence applications explained 32.0% of the variation in the growth of selected medium enterprises.

The adjusted R^2 value was .315, which was close to the R^2 value. This indicates that the model remained stable after adjusting for sample size. The findings suggest that improvements in artificial intelligence applications, including customer data analytics, demand forecasting, automated responses, digital data analysis, chatbots, and predictive insights, were associated with improved enterprise growth. The remaining 68.0% of the variation in enterprise growth was explained by factors not included in the model, such as market conditions, access to capital, managerial capability, infrastructure, and competitive intensity (Kraus et al., 2022; Li et al., 2022).

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.566	.320	.315	.536

- Dependent Variable: Growth of Selected Medium Enterprises
- Predictors: (Constant), Artificial Intelligence Applications

The ANOVA results in Table 6 confirmed that the regression model was statistically significant. The model recorded an F-statistic of 68.942 and a p-value of .000. Since the p-value was below .05, the model was significant at the 95% confidence level. This means that artificial intelligence applications significantly predicted enterprise growth and that the observed relationship was not due to chance (Field, 2022; Wooldridge, 2021).

Table 6: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	19.806	1	19.806	68.942	.000
Residual	42.100	146	0.288		
Total	61.906	147			

- a. Dependent Variable: Growth of Selected Medium Enterprises
- b. Predictors: (Constant), Artificial Intelligence Applications

The regression coefficients in Table 7 show that artificial intelligence applications had a positive and statistically significant effect on the growth of selected medium enterprises ($B = .548$, $Beta = .566$, $t = 8.303$, $p = .000$). This implies that a one-unit improvement in artificial intelligence applications led to a .548-unit increase in enterprise growth, holding other factors constant. Since the p-value was below .05, the null hypothesis was rejected. The findings therefore demonstrate that artificial intelligence applications significantly enhance enterprise growth by improving business intelligence, customer understanding, forecasting, operational responsiveness, and managerial decision-making.

Table 7: Linear Regression Coefficients

Predictor	Unstandardized Coefficients (B)	Std. Error	Standardized Coefficient (Beta)	t	Sig.
Constant	1.742	0.276	–	6.312	.000
Artificial Intelligence Applications	0.548	0.066	.566	8.303	.000

Dependent Variable: Growth of Selected Medium Enterprises

5. Conclusion

The study established that artificial intelligence applications have a positive and statistically significant influence on the growth of selected medium enterprises in Meru County, Kenya. The findings showed that the use of customer analytics, demand forecasting, automated responses, digital data analysis, chatbots, and predictive insights contributed to improved enterprise performance. These applications enhanced customer growth, sales revenue, market responsiveness, product diversification, service delivery capacity, and overall business competitiveness. The regression results confirmed that artificial intelligence applications significantly predicted enterprise growth, leading to the rejection of the null hypothesis. This means that enterprises that made greater use of AI-related tools were more likely to experience improved growth outcomes. The study therefore concludes that artificial intelligence applications are important disruptive technology capabilities for strengthening sustainable growth and competitiveness among medium enterprises.

6. Recommendations

Selected medium enterprises should progressively adopt and strengthen the use of artificial intelligence applications in their daily operations. Enterprise owners and managers should invest in customer analytics, demand forecasting, automated customer support, digital data analysis, and predictive market-insight tools to improve customer targeting, stock planning, service delivery, and strategic decision-making. County governments, ICT agencies, business associations, and development partners should provide practical digital capacity-building

programmes to improve AI literacy among medium enterprise owners and managers. These programmes should focus on affordable, user-friendly, and business-oriented AI tools that can be applied in marketing, customer service, forecasting, and operational planning. Financial institutions and enterprise support organizations should also promote affordable digital advisory services and technology financing. This would enable medium enterprises to integrate artificial intelligence applications into routine business operations and use them to support sustained growth, innovation, and competitiveness.

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