

## Entrepreneurial Strategic Capability and Performance of Small and Medium Enterprises in Kenya

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### Abstract

The performance of most small and medium enterprises in Kenya has been declining, which is evidenced by increased cases of closure after short operating period. This study sought to examine the influence of entrepreneurial strategic capability on the performance of small and medium enterprises in Kenya. The study adopted a descriptive cross-sectional research design and the target population was 2400 small and medium enterprises in Thika town's light industrial area. The study sampled 331 small and medium enterprise owners using stratified random sampling. Results indicated that entrepreneurial strategic capability had a positive and significant influence on the performance of small and medium enterprises ( $\beta=0.697$   $P < .000$ ). The study concluded that strategic capability has a positive and statistically significant influence on the performance of small and medium enterprises. The implication is that strategic capability is paramount in determining the performance of small and medium enterprises. The recommendation was that business owners should strengthen their competitive advantage capabilities. The focus should be on product/service differentiation, competitive prices, business segment awareness, and quality products/services.

**Keywords:** *Entrepreneurial strategic capability, Performance, Small and Medium Enterprises*

### 1.0 Introduction

Globally, small businesses play a prominent role in generating employment (Erdoğan, Olcay & Erdemir, 2017). Turkey has a stable economic and political environment, well-educated youth, and strong domestic market, and underserved markets of neighboring nations. However, several factors act as impediments to entrepreneurial growth in Turkey. Some of these obstacles include; bureaucracy, difficulty in the protection of intellectual property rights, lack of capital, and a monopolistic marketplace. However, scholars hold that Turkey has a reasonable environment to nurture entrepreneurship (Meyer, Meyer & Molefe, 2016). The Turkish government recognizes the importance of entrepreneurship and it tries to form an entrepreneur-friendly environment to encourage people to start their businesses by decreasing paperwork, lowering taxes, and providing incentives.

Goedhuys and Sleuwaegen (2016) analyzed the growth performance of entrepreneurial ventures among manufacturing sectors in Sub-Saharan African countries. Their focus was on identifying those entrepreneurial capabilities and firm attributes that tend to create an important number of high-growth businesses in these economies. They established that businesses that

engage in product innovation, have their transport means, and are connected to the internet through their website are particularly characterized by high growth rates.

Kenya is faced with increasing challenges of unemployment, low levels of entrepreneurial activities, and poor firm performance. This has resulted in the problem of unsustainable economic growth and development (Musambayi, 2018). Since the country adopted the devolved system of government in 2010, there has been a huge demand from county government officials as well as the entrepreneurs operating in the areas on how to provide innovative leadership for entrepreneurial performance and development. Jonas (2017) identified the impacts of entrepreneurial capabilities on the performance of private colleges in Kenya, including market orientation, entrepreneurial orientation, advertising capability, and social orientation. The study showed that entrepreneurial capabilities had a positive impact on the private university's performance.

### ***1.1 Statement of the Problem***

Kenya Economic Survey Report (2020) indicated that 79.8% of Kenya's fresh jobs were contributed by SMEs. In addition, the sub-sector adds more than 20% of the gross domestic product of the country (RoK, 2020). Despite the role of SMEs in the Kenyan economy, the Kenya National Bureau of Statistics (KNBS) report indicated that a total of 2.2 million SMEs were closed after five years. The report further established that within the first three years of operation, three out of five companies fail. SMEs that began within the last two years were more susceptible to closures and accounted for 61.3% of the total closed companies. SMEs' failure results in job losses, leading to increased insecurity, low financial liquidity, and declining financial development (KNBS, 2020). Existing studies have not focused on the entrepreneurial strategic capability and performance of SMEs. This study, thus aimed to examine the influence of entrepreneurial strategic capability on the performance of SMEs in Kenya.

### ***1.2 Research Hypothesis***

H<sub>0</sub>: Entrepreneurial strategic capability does not have a significant influence on the performance of small and medium enterprises in Kenya.

## **2.0 Theoretical Framework**

### ***Porter's Theory of Competitiveness***

Porter (1985) created the theory and viewed strategy as competition. Competition is defined by theory as a profit fight marked by five separate forces. He claims that the structure of the sector is driving competition and profitability, not whether a sector is emerging or mature, high-tech or low-tech, controlled or unregulated (Porter, 2008). As such, the five forces describe the structure of a sector and shape the nature of competitive interaction within that sector (Pringle & Huisman, 2011) that is; it assumes that the market's attractiveness from a company's view depends primarily on the composition of the market.

The strategic model of Porter begins by looking at a company's relative position in a particular sector. In other words, you begin by considering the environment of the company and then attempt to evaluate which approach to implement to maximize the efficiency of the company. Porter's strategic model, which he proved through the approach of the five competitive forces (competition level, threats to fresh entrants, the threat of replacements, the bargaining power of customers, and the bargaining power of providers) whose collective strength constitutes the attractiveness of the industry and thus determines the long-term profit potential and thus the survival of a company.

The competitiveness theory by Porter is important to this research as it explains the notion of contests and connects them to firm results. Based on the theoretical argument, companies need to consider important strategic forces if they want to achieve a competitive advantage. These forces include competition, threats presented by fresh entrants, replacement threats, consumer bargaining power as well as supplier bargaining power. The competitiveness theory by Porter predicted a link between strategic capability and firm performance.

## 2.1 Empirical Review

King'oo, Kimencu, and Kinyua (2020) focused on the role of strategic capacity in organizational effectiveness. The theory of resource-based view, organizational learning theory, intellectual capital theory, human capital theory, balanced scorecard model, and institutional theory are all used in this study. Furthermore, this study is based on the concept of positivism and employs a descriptive research design. A semi-structured questionnaire was used to obtain primary data. Quantitative data were examined and presented using figures and tables, as well as descriptive and inferential statistics. Qualitative data gathered through open-ended questions were evaluated and presented in the form of a tale. The coefficient of determination and F-statistics were calculated at the 95 percent confidence level when assessing the model's significance, and the hypothesis was tested with a p-value at the 5% significance level. According to the report, information technology capacity, human resource capacity, network capability, intellectual aptitude, and competitive advantage are all moderate. However, the emphasis is primarily on organizational culture. According to the study, information technology capability, human capital, networking, and intellectual talents have a considerable favorable impact on the performance of Kenyan private universities.

Wangechi (2016) investigated the impact of strategic skills on telecommunications company employment in Nairobi County, Kenya. This study shall specifically assess the effects of global, senior management, products/services, and strategic skills on the performance of telecommunication companies in Nairobi County. The research population consists of the top three telecommunications businesses in Nairobi County's operations, junior managers, middle management, and senior management. The stratified sample is used to categorize organizations in the telecommunications industry into three groups: high-income organizations, middle-income organizations, and low-income organizations. Secondary and primary data were gathered. Secondary data was gathered through past similar studies, yearly reports, and library sources, while primary data was gathered through the use of a semi-structured questionnaire. The study shows that the capacities of Nairobi County telecommunications firms influence their performance. These firms' specialized competencies have been recognized as global talents, senior management, product/service, and strategic technology. This study focuses on telecommunications companies, while the current study focuses on SMEs.

Wamugi (2019) examines the impact of strategic capacity on Kenyan electoral technology management. This study is descriptive. The target group comprises 290 election coordinators from Kenya's 290 constituencies. The survey included 73 election organizers. A questionnaire was used to collect data. The data in this study were analyzed using descriptive statistics and linear regression. The findings indicate that strategic capacity has little influence on the administration of electoral technology at the IEBC. The regression analysis results suggest that the coefficient of management ability and competence is not significant, as is the coefficient of logistical competence and the coefficient of strategic capability. This study focuses on the impact of strategic capacity on electoral technology management, omitting the performance aspect.

Seyhan, Ayas, Sonmez, and Ugurlu (2017) investigate how strategic skills influence competitive performance and how internal collaboration influences the relationship. You performed a poll among Turkish carpet machine makers. This is an exploratory study using an applied research method. A systematic questionnaire was used to collect data. The data used in the analysis came from 203 questionnaires distributed to senior and middle management in the organization. The study found that IT skills and governance skills are positive effects on the company's competitive performance. The moderating variable of this research is internal cooperation, while this research uses information technology as a moderating variable.

### **3.0 Methodology**

The study adopted a descriptive cross-sectional research design and target population was 2400 small and medium enterprises in Thika town's light industrial area. A sample size of 331 SMEs was selected using stratified random sampling technique. Primary data was gathered using semi-structured questionnaires. Both quantitative and qualitative data were collected. Quantitative data were evaluated using descriptive statistics and inferential statistics. Thematic analysis was used to analyze qualitative data.

### **4.0 Results and Discussion**

#### ***4.1 Descriptive Statistics on Strategic Capability***

The study sought to examine the influence of strategic capability on the performance of small and medium enterprises in Kenya. The respondents were requested to rate their agreement or otherwise against each statement posed to them, using a 5-level Likert scale (strongly disagree meant a one, disagree was a two, neutral was a three, agree was a four, and strongly agree was a five). The statements posed to respondents sought to ascertain their opinion regarding strategic capability.

The findings in Table 1 reveal that the majority of the respondents with an aggregate mean score of 4.3 and a standard deviation of 0.8 agreed with statements on strategic capability. The respondents agreed with the statements that their business offers differentiated products/services from rivals and this makes it stand out in the market (mean=4.2), the costs of their products/services are relatively lower compared to what other similar businesses offer and this increases the customer flow (mean=4.2), they know their business segment and therefore have products/services to competitively satisfy its needs (mean=4.2), they have invested in providing quality products/services to their customers (mean=4.4) and they can conveniently provide products/services to their customers and this places their business on top (mean=4.4).

This supports Ong, Ismail, and Goh (2018) argument that competitiveness plays an important role in affecting SMEs' performance. The findings imply that the respondents demonstrated strategic capabilities in operating their businesses. In particular, several key aspects of strategic capability were identified. These include product/service differentiation, competitive prices, business segment awareness, and quality products/services. The application of these competitive advantage capability aspects is expected to enhance the performance of small and medium enterprises.

**Table 1: Descriptive Statistics on Strategic Capability**

Statement(N=285)	SD	D	N	A	SA	M	S.DEV
My business offers differentiated products/services from my rivals and this makes it stand out in the market.	1.4%	4.2 %	6.3 %	47.7 %	40.4%	4.2	0.8
The costs of my products/services are relatively lower compared to what other similar businesses offer and this increases the customer flow.	2.5%	6.0 %	4.9 %	40.4 %	46.3%	4.2	1.0
I know my business segment and therefore have products/services to competitively satisfy its needs.	0.0%	5.6 %	7.7 %	43.5 %	43.2%	4.2	0.8
I have invested in providing quality products/services to my customers.	0.0%	1.8 %	7.4 %	40.4 %	50.5%	4.4	0.7
I can conveniently provide products/services to my customers and this places my business on top.	0.0%	1.4 %	5.6 %	46.0 %	47.0%	4.4	0.7
<b>Aggregate mean</b>						<b>4.3</b>	<b>0.8</b>

The business owners/ managers were asked to state other ways in which strategic capability in a business can be demonstrated. The respondents mentioned several ways in which entrepreneurs can illustrate their strategic capability. These were cost leadership, differentiation leadership, cost focus, and differentiation focus. The application of these strategic capability aspects was expected to boost business performance.

#### 4.2 Correlation Analysis

The findings in Table 2 indicate that strategic capability ( $r = .697^{**}$ ,  $P = .001$ ), had a strong positive and significant correlation with the performance of small and medium enterprises. This implies that an increase in strategic capability is significantly correlated with an increase in business performance. The findings agreed with Sar (2017) observation that competitive advantage influences profitability. Rabah (2018) further indicated that the implementation of competitive policies is crucial to the performance of institutions.



**Table 2: Correlation Results**

		Business performance	Entrepreneurial strategic capability
Business performance	Pearson Correlation	1	
	Sig. (2-tailed)		
	Pearson Correlation	.697**	1
Entrepreneurial strategic capability	Sig. (2-tailed)	.001	

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

### 4.3 Influence of Entrepreneurial Strategic Capability on Business Performance

The study sought to examine the influence of strategic capability on the performance of small and medium enterprises in Kenya. The independent variable (strategic capability) was regressed on the dependent variable (business performance). Tables 3, 4, and 5 provide a model summary, ANOVA, and coefficient results respectively.

Results in Table 3 indicate that separately, strategic capability explains 48.4% (Adjusted R<sup>2</sup>= .484) of the total variations in the performance of small and medium enterprises. The adjusted R-square was preferred because the constant value in Table 5 is insignificant. These results confirm the output of the correlation in Table 2 that a positive and significant relationship exists between strategic capability and business performance.

**Table 3: Model Summary; Strategic Capability and Business Performance**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.697a	0.486	0.484	0.32747

a Predictors: (Constant), Strategic capability

The regression ANOVA model in Table 4 shows an F statistic of 267.518 and a reported P value of 0.000. The P value is less than the alpha value ( $P < .05$ ), the proposed model is therefore statistically significant (good fit) in predicting the dependent variable.

**Table 4: ANOVA; Strategic Capability and Business Performance**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	28.688	1	28.688	267.518	.000b
	Residual	30.348	283	0.107		
	Total	59.036	284			

a Dependent Variable: Performance

b Predictors: (Constant), Strategic capability

Since all the factors of strategic capability have identical (Likert) scales, however, the constant value in the model is insignificant, hence the use of standardized coefficients beta scores as opposed to unstandardized B-coefficients. Consequently, the value of regression weights shown in Table 5 indicates that strategic capability had a significantly positive influence on the performance of small and medium enterprises ( $\beta=0.697 P < .000$ ).

The findings agreed with Sar (2017) observation that competitive advantage influences profitability. Rabah (2018) further indicated that the implementation of competitive policies is crucial to the performance of institutions.

The estimated model becomes:

$$\text{Business Performance} = 0.697\text{Strategic Capability}$$

**Table 5: Coefficients; Strategic Capability and Business Performance**

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	0.196	0.209		0.939	0.348
	Strategic capability	0.795	0.049	0.697	16.356	0.000

a Dependent Variable: Performance

## 5.0 Conclusion

The study concluded that strategic capability has a positive and statistically significant influence on the performance of small and medium enterprises. The implication is that strategic capability is paramount in determining the performance of SMEs. Products/services differentiation, competitive prices, business segment awareness, and quality products/services were found to be key aspects of strategic capability that enhance firm performance.

## 6.0 Recommendations

From the findings, strategic capability had a positive and significant influence on the performance of small and medium enterprises. This study, therefore, recommends that SMEs owners should strengthen their competitive advantage capabilities. They should particularly focus on product/services differentiation, competitive prices, business segment awareness, and quality products/services. Improving these aspects will lead to an increase in firm performance.

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