Dynamic capabilities, strategic orientation and competitive advantage of small and medium-retail enterprises in Kenya

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A thesis submitted in partial fulfillment for the degree of Doctor of Philosophy in Business Administration in the Jomo Kenyatta University of Agriculture and Technology

2015

DECLARATION

This thesis is my original work and has not been presented for a degree in any other university

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To Steve, Gloria, Stacy and Elvis

ACKNOWLEDGEMENTS

I am indebted to various persons who have been of great support to me in the process of coming up with this thesis. First and foremost, I would like to thank the Almighty God for the gift of life and the precious opportunity He has given me to pursue the Doctor of Philosophy Degree in Business Administration. I most sincerely acknowledge my supervisors, Dr. Mike A. Iravo and Dr. Margaret A. Oloko whose numerous constructive criticisms, recommendations and suggestions were invaluable in shaping and giving direction to this thesis. I cannot forget to acknowledge Prof. John M. Kihoro who has generously provided guidance on the statistical bit of this thesis. All provided sufficient guidance throughout the thesis writing. Further acknowledgements go to Mr. Mukaburo, revenue Accountant at Thika Sub County who was more than willing to provide all the information I needed regarding the registered enterprises within Thika Sub County. Mr. Antony D. Bojana deserves gratitude for editing the final work and Herman Muriu for his diligent support in data collection.

Special thanks go to my dear husband and mentor Dr. Stephen Gitahi who kept me on my toes to ensured that I made positive progress throughout this programme; our lovely children Gloria, Stacy and Elvis for their understanding, love and support throughout the study period. Sincere gratitude is extended to my friends and course mates who helped keep me sane throughout the thesis writing process, their valuable criticism, comments, support and valued friendship made this journey far from lonely.

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ACRONYMS

DCs	Dynamic Capabilities
FDI	Foreign Direct Investment
FMCG	Fast Moving Consumer Goods
Go K	Government of Kenya
KNBS	Kenya National Bureau of Statistics
SMREs	Small and Medium-retail Enterprise(s)
OECD	Organisation for Economic Co-operation and Development
OLS	Ordinary Least Squares
R&D	Research and Development
RBV	Resource Based View
CA	Competitive Advantage
SPSS	Statistical Package for Social Sciences
TRM	Thika Road Mall
UNIDO	United Nations International Development Organization
VRIN	Valuable, Rare, Inimitable and Non-substitutable resources

DEFINITION OF TERMS

Dynamic capabilities : Can conceptually be regarded as the enterprises' capacities to: 1) sense and shape opportunities, 2) seize opportunities and 3) redeploy and reconfigure (create, extend and modify) their resource base so as to improve the effectiveness, speed and efficiency of organizational responses to environmental turbulence (Teece, 2007).

Sensing capabilities : Describe an enterprise's capability to continuously identify and evaluate opportunities of relevant environmental changes for competitive action (Teece, 2012). Therefore, enhanced sensing capabilities enable enterprises to perceive opportunities and threats by scanning, interpreting and understanding their environment.

Seizing capabilities : Refer to the enterprises' abilities to perceive and seize opportunities they need to make interrelated strategic choices and investment decisions and make timely as well as competitive investment decisions. It is an enterprise's ability to set identified opportunities and threats by, for example, launching new services and products timely or building and adjusting processes effectively (Barreto, 2010; Teece, 2007).

Reconfiguration Capabilities : Is reflected by the general ability to create new capabilities and the ability to integrate newly created or acquired capabilities independent of the specific conditions (Lavie, 2006).

Strategic orientation : Refers to the processes, practices, principles and decision-making styles that guide enterprises' activities, especially in the context of the external environment and corporate development to substantially influence competitive advantage and competitive advantage of enterprises (Jantunen, Nummela, Puumalainen, & Saarenketo, 2008).

Customer-orientation : Is the tendency to be customer-focused where enterprises are replete with customer information, anticipating their reactions, basing their strategies and competitive advantage on customer judgments of relative product utility and satisfaction (Day, 2011).

Competitor-orientation : Is the tendency of an enterprise to be competitor centred enterprises in that, they are rich in information about competitors, anticipating actions and reactions, gauging competitive advantage on the basis of cost and profitability comparisons (Day & Nedungadi, 2004).

Competitive advantage : Is the enterprise's ability to implement a new market strategy that facilitates price reduction, productivity and ample utilization of market opportunities (Geneva, 2009; Newbert, 2008).

Small and medium-retail enterprises : Is a business undertaking which employs between 1 to 50 employees and dealing with fast moving consumer goods (Ravasi, Davide & Verona, 2012).

ABSTRACT

This thesis examined how strategic orientation mediated dynamic capabilities and competitive advantage relationships in small and medium-retail enterprises facing dynamic situations especially from large retail enterprises. Specifically, this study focused on three hypothesized dynamic capabilities, which were; sensing and seizing of market opportunities and reconfiguring the resource base; the mediating effect of competition orientation and customer-orientation for competitive advantage among retail SMEs within a developing country given the business environmental pressures. The study objectives were to determine the direct influence of sensing, seizing and reconfiguring capabilities on competitive advantage of retail SMEs and also the indirect influence by determining the mediating effect of strategic orientation on the relationship between dynamic capabilities and competitive advantage. The research was descriptive with the target population being the 8,601 FMCG retail SME's registered with Thika Sub County. Stratified random sampling technique was used to select a sample of 358 enterprises and data collected by use of questionnaires and then analyzed using multiple regression analysis and tested hypotheses. The findings of this study from the multiple regression analysis indicated that SMREs competitive advantage is directly influenced by the deployment of strategic dynamic capabilities. The results of this research shows that, both competition orientation and customer orientation of an enterprise partially mediates the relationship between seizing and reconfiguration capabilities and fully mediates the relationship between sensing capabilities and competitive advantage. The results indicated that, customer oriented strategies coupled with reconfiguration capabilities were the most critical dynamic capabilities in enhancing an SMRE's competitive advantage. The study therefore recommends that SMREs should focus integrating the newly acquired capabilities by

enhancing their systems, products and service delivery responsive to the customers and focus in supporting the enterprise goals and objectives.

The research also recommends SMEs need to go beyond the level of acquiring resources and move to the level of transforming the resources to capabilities, in order to remain competitive in a changing environment. Finally, study concludes aligning the dynamic capabilities to the enterprise's competitive strategies with customers focus and proper analysis of competition trends would facilitate competitive attacks emerging from large retailers.

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background to the Study

Small and Medium Enterprises (SMEs) in the retail are considered to be a key drivers of economic growth for many developed and developing countries, comprising over 90 percent of all businesses globally (Maurel, 2009; Tang *et al.,* 2007; Krake, 2005). They influence many governments' economic, developmental strategies and dominate the world business stage (Tang *et al.,* 2007; NORAD Report, 2002). They form a significant portion of the commercial landscape in any country and the contribution made by SMEs to any economy is a subject of constant research (Suprapto *et al.,* 2009).

Researchers in strategic management are particularly concerned with the development of strategies and models that can help SMEs achieve superior competitive advantage. With their relatively smaller operations, lower capital outlay, limited human resources and the growing competition landscape along with the customer dynamics, the business models of SMEs are significantly different from large retail enterprises and require a different strategic approach. In recent years, research in this area has identified and examined a range of approaches under the rubric of strategic orientation that SMEs can adopt to achieve superior enterprise competitive advantage. This study draws upon the concept of strategic orientation and attempts to examine how such approaches help improve the competitive advantage of retail SMEs in Kenya.

Statistical estimates suggest that more than 95 percent of enterprises across the world are retail SMEs, accounting to approximately 60 percent of private sector employment (USAID, 2007). Japan has the highest proportion of retail SMEs among the industrialized countries, accounting to more than 99 percent of total enterprise (BIS, 2012). India, according to the Ministry of MSMEs, had 13 million SMEs in 2008, equivalent to 80 percent of all the countries businesses (Ghatak, 2010). The contribution of retail SMEs to economic fundamental varies substantially across countries with recent empirical studies showing that retail SMEs contribute to over 55 percent of GDP and over 65 percent of total employment in high income countries (European Commission, 2013). Retail SMEs account for over 60 percent of GDP and over 70 percent of the total employment in low-income countries while they contribute over 95 percent of the total employment and about 70 percent of the GDP in middle-income countries (European Commission, 2013). Retail SMEs represent the vast majority of the businesses in USA. There are approximately 13.4 million retail SMEs in USA accounting to 68.7 percent of all enterprises in US and contribute 41 percent of the total sales (OECD, 2004). The retail SMEs accounted for more than 98 percent of all enterprises in Europe in 2012 (European Commission, 2012). The commission also estimated that in 2012, SMEs accounted for 67 percent of the total employment and 58 percent of the gross value added, an important component of GDP. In India, there are 13.5 million SMEs and employed 30 million people in 2008 (Sincar, 2010).

In South Africa, 71 percent of the formal business entities are retail SMEs (Abor & Quarterly, 2010). It is estimated that SMEs growth in South Africa has reached 7 percent growth rate with almost 40,000 new entrants annually. The sector contributes about 40 percent of the GDP. In Uganda in 2004, the value of goods and services generated by retail SMEs was USD 1,363,733 million of the total USD 2,360,157 million, thus a contribution of 58 percent (Uganda Bureau of Statistics, 2004). The Bureau also estimated that SMEs employed 2,704,127 people representing 56 percent of employment size. In addition, they were responsible for human resource and entrepreneurial development, poverty alleviation, resource mobilization, business adaptability and sustainability.

In Kenya's retail SMEs sector contributed an estimated 18 percent of GDP in 2011 (Africof, 2012). The sector also employs about 85 percent of the Kenyan workforce that translate to about 7.5 Million Kenyans of the country's total population (Ongolo & Odhiambo, 2013). It is estimated that the sub-sector contributes to about 20 percent of the total GDP (GOK, 2013). The sector plays a very important role by significantly contributing to the Country's GDP and its labor market. This is because it provided for approximately 80% of total employment and contributed over 92% of the new jobs created in 2008 (Economic Survey of 2009).

However, despite their contribution to economic growth, the retail sector in Kenya is facing new and severe challenges in its own right. It continues to face binding constraints that hinder it from realizing its full potential. The constraints include; limited access to information and markets, inadequate access to skills and technology, limited access to finances among others (GOK, 2005; GOK, 2007). Trade liberalization and globalization has opened new opportunities for the sector as well as created new competitive pressures. Despite government intervention, the applied measures seem not to have yielded the expected impact and the productive sections of the sector have stagnated (KIPPRA, 2002). The sector is additionally threatened by stiff competition from large enterprises, poor access to information on markets, production technology, customer trends and limited production technology leading to low quality goods (GOK, 2005). This has led to the need for developing new systems and strategies to help SMEs become more efficient and productive which is not only beneficial to SMEs but for the economy as a whole.

Recent research shows, that there has been a significant upward trend in volatility of business competitive advantage during the second half of the twentieth century (Comin & Philippon, 2006; Thomas & D'Aveni, 2009), while the probability of most enterprises exit has also increased (Baker & Sinkula, 2009). The industry leaders across a broad range of sectors of the economy maintain their competitive advantages for increasingly shorter periods of time (Wiggins & Ruefli, 2005). These empirical findings indicate that competition is fiercer than ever before and that the new competitive landscape makes it increasingly difficult for small and medium businesses to build and maintain a sustainable competitive advantage.

1.1.1 Retail Sector in Kenya

In Kenya, the small and medium-retail enterprises play a crucial role in the overall economy contributing 18% to GDP and an estimated 76% total wage payment according to the Sessional paper No. 10 of 2012 on Kenya Vision 2030 (GoK, 2012). According to the Kenyan Economic Survey of year 2012, the retail and wholesale trade grew by 19%

over the past five years becoming the second largest driver of economic growth after transport and communication (GoK, 2012). Citibank in the year 2012 ranked Kenya as having the second most developed retail system in Africa after South Africa (Knight Frank & Citigroup, 2012). The retail industry has now become crucial as one of nation's growth engine playing the role of delivery window for nearly 40 million people in the country. South Africa has 60% of its market formalized. The Kenyan retail market which is said to be experiencing retail penetration of about 30% is dominated by; Nakumatt with 37 stores, Tuskys with 37 stores, followed by Uchumi's 18 outlets and the upcoming Naivas that has established 19 outlets (Central Bureau of Statistics, 2012). The penetration is attributed to the presence of strong brands of local outlets, a broad middle-income class, elaborate transport network and good governance in the country. Over the last five years, the FMCG retailing sector in Kenya has experienced phenomenal growth and changes. These changes are characterized by the growing Kenyan population and rural urban migration, infrastructural boom key being the construction of the 40 billion shillings Nairobi Thika superhighway, real estate boom, rapidly growing middle-class population which is pushing up consumerism and the high demand for diverse products coupled with rising incomes all set to drive consumer sector vibrancy, thus making the retailing outlook especially between Nairobi and Thika region to continue being positive for new retail ventures (Knight Frank & Citigroup, 2012).

Other key observations are large retail stores leading the expansion of malls, hypermarkets and convenience stores especially along the Thika superhighway. The infrastructural boom in Kenya and specifically along the superhighway has seen the region that has traditionally been occupied by large low-income group now struggling to satisfy the needs for the uprising middle class. Positive macroeconomic conditions (average GDP of 5.1% expected through to 2014) are making it an appealing choice for retailers seeking more 'contained' markets. Other indicators are, improving economic conditions such as trade liberalization, which has been evaluated generally positive in terms of economies of scale, intensified competitiveness level, technology innovation and management efficiency of the large retailing chains (Deloitte Report, 2011).

Owing to the fore-mentioned change drivers, Kenyan retail market has become attractive as a target sector for Foreign Direct Investment (FDI). According to a recent report by Knight Frank and Citigroup (2012), the appetite for Kenya's retail industry continues to grow, with the impending entry of four major global retail chains. South African supermarket giant, Mass mart, which is owned 51% by US retail giant, Wal-Mart, has booked space in the Garden City shopping mall along Thika Road. Game Stores, Jet Stores and Edgars plan to open shops in Kenya by 2015. The report says that seven malls are scheduled for completion by 2015. This will further heighten competition in Kenya's retail market. The report indicates that, the international retailers are positioning themselves to take advantage of Kenya's increasing consumerism as they seek to enter other African markets through Kenya. Additionally, Kenya's retail sector is further dominated by six major local supermarkets which are also on an aggressive expansion especially along Thika highway. Examples are; Nakumatt and Tuskys opened branches in Thika town and Roysambu Thika Road Mall (TRM). They are all dominating the retail landscape with their nationwide coverage and fair priced quality product offerings especially targeting the upper and middle class customers. This is achieved by leveraging large-scale economies across the value chain and now strategically locating themselves in the residential areas and other convenient locations which have ease of access (Knight Frank & Citigroup, 2012).

With this trend, one would almost summarize that small and medium-retail enterprises that have existed for long can no longer find competitive space, since this trend has heightened competition in the retail sector threatening the very survival of the small and medium-retail businesses which comprises 76% of the country's retail market. SMREs must therefore compete in a complex and challenging context so as to survive the stiff competition in markets where large and multi-national retail enterprises also operate. Though large retail enterprises face the challenges that small and medium-retail enterprises also face, the SMRE's have the added struggle of developing capabilities that will enable them to build and maintain high levels of relative competitiveness against the large retail enterprises given the environmental context they operate in.

Given these trends, various strategic models are helpful for the SMREs in countering these trends and hedging their competitiveness given their level of size, resource base, adaptability and flexibility in coping with the changing competitive landscape, changing customer trends and other institutional and infrastructural changes (Odedairo & Bell, 2010). In today's retail business environment the risks associated with strategic errors are significant (Dawson, 2003). Today's business environment is highly dynamic and enterprises are forced to constantly adapt to the fast-changing circumstances (Lowson, 2003). The dynamic and global competitive forces have created a need for revolution in orientation strategies to help enterprises deploy its dynamic resources that enable cost reductions, high quality products and speedy responses to changes in the marketplace (Paiva *et al.,* 2008). The thrust of this research there was that the realization of the potential advantage accruing to deployment of dynamic capabilities of sensing opportunities, seizing and configuring resources depends on the business's strategic orientation in the markets in which it is embedded. Competitive pressures, increasing customer sophistication, infrastructural dynamics are among other forces that strengthen and force retail SMEs to strategize on maximum utilization of internal and external capabilities for competitiveness (McKee *et al.,* 2009). Thus, the purpose of this study was to examine the effect of strategic orientation on the relationship between dynamic capabilities and competitive advantage of the retail SMEs in Kenya.

1.1.2 Dynamic Capabilities Approach to Competitive Advantage

The main objective of conducting this study was to examine the effect of strategic orientation on the relationship between dynamic capabilities and competitive advantage among Kenyan retail SMEs. Superior competitive advantage is vital to the survival and growth of retail SMEs. Competitive advantage seems like a self-evident and self-explanatory term but actually needs to be carefully deconstructed to understand its tangible content especially within a middle class economy like Kenya given the enormous constraints facing the SMREs.

a) Dynamic Capabilities Dimensions

Dynamic capabilities emphasizes two aspects; the changing nature of an enterprise's environment (that is, 'dynamic') and the role of strategic management in adapting, integrating and re-configuring the enterprise's internal and external skills, resources and competencies towards this environment (the 'capabilities') (Teece *et al.,* 1997). Change in the retail sector in Kenya has occurred in the form of intense competition, demand for satisfying the needs of sophisticated customers, delivery of new and quality products efficiently among other challenges. Consumers are also expecting that the retailers will offer the right match in terms of right product offering, place and time and by the right appeal. Giant retailers are exploiting advantages such as, the accessible locations, convenience and quality to shop for consumables such as bread, milk and groceries on a daily or weekly basis (Mckinsey's Africa Consumer Insight Center, 2012).

i) Sensing Capabilities

Also referred to as, strategic sense-making capacity refers to enterprises' capabilities to identify opportunities, threats, changes and also competitors' possible responses to the focal enterprise's actions (Li and Liu, 2014). It requires constant scanning, searching and both external and internal exploration (O'Reilly & Tushman, 2008; Panzda & Thorpe, 2009). This sensing can take place through market presence and participation, enterprise cooperation, or personal networks and connections and also internal research and development activities. Although sensing is necessary, problems lie in its inefficiency and its association with sourcing bad ideas. In comparison, concentrating on exploitation of what is already known and proved to work has a greater certainty of success in the short run (O'Reilly & Tushman, 2013). Furthermore, even continuous and well-managed sensing and exploration does not automatically lead to improved competitive advantage or innovativeness but only enables subsequent innovation activates to take place (Helfat & Peteraf, 2009).

ii) Seizing Capabilities

To concretely benefit from sensing, enterprises need seizing, or decision-making capabilities. This refers to making the correct decisions and executing them so that they simultaneously align with the enterprises' assets and strategic goals (Li & Liu, 2014). To capture value from opportunities, enterprises must be able to mobilize their existing resources towards these new innovative goals (Teece, 2014). Seizing new opportunities might actually be one of the hardest things for SMREs. Thus, while seizing opportunities should be a priority in every enterprise, for this to happen requires that the SMRE is future oriented, has good management capabilities and furthermore, is ready to sometimes even cannibalize its own products to prosper over time (McGrath, 2001). A number of prior studies have shown that, in reality, this is rarely the case (Henderson & Clark, 1990; Leonard-Barton, 1992; Tushman & Anderson, 1986).

iii) Reconfiguration capabilities

Refers to the ability to recombine both tangible and intangible assets so that they meet the demands of markets and technological changes (Li & Liu, 2014; O'Reilly & Tushman, 2008; Teece, 2007). While an enterprise competencies provide competitive advantage at a given time, the changing business environment calls for new competitive assets and thus new competencies. This is especially true today as product and technology lifecycles are shortening, becoming more interdisciplinary and thus more demanding and also because financial requirements are rapidly rising (Rese & Baier, 2011; Santamaria & Surocca, 2011). To be able to respond to these continuous trends, enterprises need to be agile and ready to replace outdated business and management activities with new ones. All three dynamic processes are simultaneous, support each other and contribute to achieving above average competitive advantage.

However, there are various issues about competitive advantage of SMRES within the Kenyan context. First, in the desire to gain competitive advantage necessitated by macro and micro level changes in the operative business, retail SMEs must adopt new strategies and leverage their competences to assist them counter the stiff competition from large retail chains and remain relevant in the competitive business world. The best test of the distinctiveness of a strategy is whether it disproportionately facilitates the provision of superior customer value or permits the business to deliver to customers in an appreciably more cost effective way. In this respect, a distinctive competition – oriented and customer – oriented strategy functions more like a key success factor (Day & Nedungadi, 2004).

b) Strategic orientation

McGee and Finney (2007) examined the role distinctive strategic orientation plays in attaining competitive advantage among a cross-section of 189 small and medium-retailers located in several rural Midwestern communities. Their study explicitly addressed the direct relationship between distinctive customer focused choices and competitive advantage. They analyzed five factors which were 1) customer quality image, 2) effective differentiation, 3) effectiveness of key merchandising practices, 4) customer involvement and 5) control of retail market programme. They concluded that choice of strategy should be aligned with the market and customers' needs. Building upon this position, this study maintains that customer-oriented strategy provides sources of advantage for the small and medium-retail enterprises relative to the large enterprises (Tan & Smyrnios, 2006). Second, competition represents turbulence, stress, risk uncertainty and exists in a number of forms, namely; price, market, position and product competition (Khandwalla, 1973). Competitive effects play an important role in the strategy of enterprises (Porter, 1985). Competitive intensity is a situation where an enterprise operates in markets that are characterized by a high number of manifestly competing enterprises, thus limiting potential growth opportunities (Auh & Menguc, 2005).

Competition orientation strategies are apparent in the current Kenyan retail market due to conditions such as high price competition, strategic positioning and high levels of advertising. With increasing competitive intensity as characterized by the increasing number of large retail formats and aggressive expansion of the local retail especially along the Thika superhighway, the outcomes of retail SMEs actions will depend on the actions undertaken by competitors. Businesses struggle for survival in an environment of finite resources and the higher the number of retail enterprises, the higher the competitive intensity thus the more need for competitor-orientated strategies (Schroeder *et al.,* 2002).

Third, dynamic capability is the enterprise's ability to sense and shape the opportunities and trends in the market, seize these opportunities and reconfigure enterprise's resources and competencies to maintain competitive edge (Teece, 2007). The significant role of dynamic capabilities in developing value creating strategies is undeniable. Hence, the alignment of dynamic capabilities with competitive strategies given the customer dynamics and the nature of competition is important, particularly in highly competitive business environment. Small and medium enterprises must make their strategic decisions quickly to respond to high level market changes (Sher & Lee, 2004).

c) Competitive Advantage

Dynamic strategic resources are the cornerstone of enterprises to gain competitive advantage and thereby performing better than their competitors in the same industry (Kraaijenbrink *et al.,* 2010). The premise of the resource-based theory is that, enterprises gain competitive advantage when they possess certain unique resources. The strategic literature indicates that enterprises' competitive advantages are the results of possessing internal resources which their competitors lack (Barney, 1986; Peteraf, 1993; Teece *et al.,* 1997). Whilst research on the competitive advantage of retail SMEs based on the resource based-view acknowledges that enterprises' unique resources give them competitive advantage, they are scanty and the focus of attention has a lot been on internal resources. Less attention has also been paid on external resources and competitive advantage. For example, Amadieu and Viviani (2010) investigated intangible resources and the competitive advantage of SMEs in the French Wine industry. They documented that intangible resources had a negative impact on SMEs' financial competitive advantage and a positive impact on commercial competitive advantage measurements especially for cooperatives and wholesalers**.** Dhanaraj and Beamish (2003) examined the competitive advantage of SMEs in the export sector and the results showed that the enterprise, technological intensity and enterprise size were predictors of export strategy and export strategy also positively influenced the enterprise's competitive advantage.

Lerner and Almor (2002) conducted a research into the relationships among strategic capabilities and the competitive advantage of women-owned small ventures. The results were that business competitive advantage depended on strategic, financial and managerial skills. The study of Bakar and Ahmad (2010) also showed that intangible resources of SMEs in Malaysia were significantly related to product innovation competitive advantage. Terziovsk'si (2010) research also revealed that innovation and strategy were the predictors of the competitive advantage of SMEs in the manufacturing sector in Australia.

The empirical studies on competitive advantage above indicate a need for studies focusing on SMEs in the retail sector particularly in the developing and middle class economy context, hence shifting attention to the retail sector in Kenya was critical. This research was most concerned with both the direct and indirect relationship between three identified dynamic capabilities; sensing, seizing and configuring and competitive advantage whose measures are cost leadership, improved quality and market responsiveness, contingent to the enterprise's strategic orientation (customer-oriented and competition-oriented) so as to enable (inhibit) the SMEs in the retail sector compete against the large retail chains that are dominating the retail sector in Kenya.

1.2 Statement of the Problem

Small and medium retail sector has been identified as one of the key drivers in the economic development agenda of Kenya comprising 76% of the total retail business and contributing up to 10.8% of the GDP according to the Sessional paper No. 10 of 2012 on Kenya Vision 2030 (GoK, 2012). Recent factors in today's Kenyan retail sector such as the increase in consumption expenditure and middle-class consumerism, infrastructural boom such as the landmark Thika superhighway, expansion of consumable trade sectors as a result of improved access to credit brought by falling interest rates, growth of regional markets for exports, changing demographics, have brought vast transformation in the retail sector. These have created fierce competition from large retail merchandisers who are penetrating this market with such vigor, strategy, offering virtually all ranges of consumer products and locating themselves in strategic and convenient locations.

Morris and Gerlich (2005) found that the entry of a mega-retailer in a particular market has a profound effect on the sales and profitability of existing retailers and that the small retailer is confronted by another rival with whom he has scarcely any competitive advantages. While the growth of the large retail chains has meant convenience, variety and cost-effectiveness for most consumers, small and medium scale retail traders are losing out and are slowly being cut out of the value chain, since the large retail chains are offering virtually all range of products under one roof (Knight Frank & Citigroup, 2012). Evidence is showing the slow decline of the small and medium retail enterprises in areas filtrated by the large retail chains (Mckinsey's Africa consumer insight center, 2012). The survey conducted in the second half of the year 2012 showed the small and medium-retail enterprises were losing the battle for survival to large retail stores that have (or planning to) set up hundreds of branches across the country with a keen emphasis on entering the residential markets as evidenced particularly along Thika superhighway. This is forcing small and medium-retail enterprises to re-think new ways of leveraging capabilities for competitiveness and survival. How an enterprise is able to anticipate these changes in their environment and adapt to them is crucial for long-term survival. This is especially true for the SMREs that need to strategically deploy their capabilities to maintain their competitive position in the face of new and emerging competitive and market challenges (O'Reilly & Tushman, 2008). The key message of the dynamic capabilities perspective lies in three disaggregated organizational activities; sensing, seizing and reconfiguring (Teece, 2014).

Previous studies in Kenya on SMEs have largely focused on the social, economic and administrative constrains that hinder growth of the retail SMEs (Mullei & Bokea, 2000). Others have focused on the main sources of formal and informal financing of retail SMEs and influence of technological capabilities on competitive advantage of SMEs (McGeorge *et al.,* 2013). This creates a research gap on dynamic capabilities, strategic orientations relationships and how they can influence the survival of the small and medium retail enterprises facing stiff competition from the large retailers in Kenya (Kiveu, 2008). The study contended that, if the retail SMEs utilized their internal capabilities and aligned them with the external environmental orientations based on the customer trends and competition landscape, then their competitiveness could improve. This study thus analyzed how the deployment of dynamic capabilities (sensing, seizing and reconfiguration of resources) mediated by the enterprises strategic orientation (customer-orientation and competition orientation) influenced the enterprise's competitive advantage (cost leadership, improved quality and market responsiveness). The study adopted a contingency framework in deployment of dynamic capabilities which holds that, for businesses to gain a competitive edge, there must be an appropriate fit between organization's capabilities, strategy and context (Fincham & Rhodes, 2005).

1.3 Objectives

This study sought to investigate the relationship between dynamic capabilities, strategic orientation and their influence on the competitive advantage of retail SMEs in Kenya

1.3.1 Specific Objectives

1. To evaluate the relationship between dynamic capabilities and competitive advantage of Small and Medium Retail Enterprises in Kenya.
2. To determine the influence of strategic orientation on the relationship between sensing capabilities and competitive advantage of Small and Medium Retail Enterprises in Kenya.
3. To examine the influence of strategic orientation on the relationship between seizing capabilities and competitive advantage of Small and Medium Retail Enterprises in Kenya.
4. To establish the influence of strategic orientation on the relationship between reconfiguration capabilities and competitive advantage of Small and Medium Retail Enterprises in Kenya.
5. To analyze the mediating role of strategic orientation on the relationship between dynamic capabilities and competitive advantage of Small and Medium Retail Enterprises in Kenya.

1.4 Research Hypotheses

The researcher postulated the following hypotheses which were tested:

H_{01} : There is no significant relationship between dynamic capabilities and competitive advantage of Small and Medium Retail Enterprises in Kenya.

H_{a1} : There is significant relationship between dynamic capabilities and competitive advantage of Small and Medium Retail Enterprises in Kenya.

H_{02} : Strategic orientation has no significant mediating effect on the relationship between sensing capabilities and competitive advantage of Small and Medium Retail Enterprises in Kenya.

H_{a2} : Strategic orientation has a significant mediating effect on the relationship between sensing capabilities and competitive advantage of Small and Medium Retail Enterprises in Kenya.

H_{03} : Strategic orientation has no significant mediating effect on the relationship Between seizing capabilities and competitive advantage of Small and Medium Retail Enterprises in Kenya.

H_{a3} : Strategic orientation has a significant mediating effect on the relationship between seizing capabilities and competitive advantage of Small and Medium Retail Enterprises in Kenya.

H_{04} : Strategic orientation has no significant mediating effect on the relationship between reconfiguration capabilities and competitive advantage of Small and Medium Retail Enterprises in Kenya.

H_{a4} : Strategic orientation has a significant mediating effect on the relationship between reconfiguration capabilities and competitive advantage of Small and Medium Retail enterprises in Kenya.

H_{05} : Strategic orientation has no significant mediating effect on the relationship between dynamic capabilities and competitive advantage of Small and Medium Retail Enterprises in Kenya.

H_{a5} : Strategic orientation has a significant mediating effect on the relationship between dynamic capabilities and competitive advantage of Small and Medium Retail Enterprises in Kenya.

1.5 Significance of the Study

Small and medium retail enterprises are key drivers of economic growth and development for many economies. Hence, dynamic strategic resources and competitive advantage have become important concepts for development agenda for many middle class and developing countries like Kenya. Therefore the findings this thesis served the following key purposes.

a) To provide guidance to the owners or retailers of SMREs originating from middle class countries like Kenya with possible strategies that enhances their competitive position in both local and international market.
b) The research findings provide strategic insights into how middle class countries can enhance the survival of the all important small and medium retail enterprises. The results of the study provide useful insights into competitive trends of the Kenyan SMREs, in which information can be used by decision makers in planning, designing and integrating activities of SMREs in the overall national competitiveness strategy and policies.
c) Particularly the findings are relevant for government planners in understanding how to come up with policies that support the competitive position of retail SMEs such as institutional, regulatory and infrastructural resources.
d) Small and medium-retail enterprises must succeed and achieve sustainable competitiveness, survival and industrialization according to the national development agenda in Kenya as has well-documented been in Sessional Paper No. 10 of 2012 on Kenya Vision 2030 (GoK, 2012). Thus, the study enables retail SMEs sector policy-makers to develop and train effective strategies for enhancing the sustainability of SMEs for their growth and survival in the highly competitive environment by leveraging the competences and resources
e) This study further provides important information for SMREs in Kenya as a benchmark for further studies in developing countries in Africa and beyond.
f) The study findings provide practitioners with competitive strategies in addressing competitive advantage challenges and in implementing dynamic capabilities strategically, in particular customer and competition oriented strategies that would

make their businesses more competitive in the local and international markets as a whole.

1.6 Scope of the Study

This study sought to examine the effect of strategic orientation on the relationship between dynamic capabilities and competitive advantage of retail SMEs in Kenya. The study took all the SMEs in the FMCG retail sector in Kenya as the setting. However, it was confined only to the small and medium-retail enterprises within Thika Sub County and its environs. These areas were selected because, they have become the fastest retail growth centres of large retail chain and malls especially with the ease of connectivity to proper infrastructure, Thika-Nairobi superhighway that has since enhanced accessibility to the capital city, Nairobi. All these large retail enterprises positioning themselves in these regions are being supplemented by numerous small and medium-retail enterprises currently numbering 8601 enterprises (Thika Sub County, 2013).

1.7 Limitations of the Study

During the study, the following challenges were experienced; first, only small and medium retail enterprises, according to this study's definition of SMREs are included in the study. This study recommends that investigation be extended to small and medium enterprises in other sectors. Second, the SMEs dealing with FMCG are used as the model sector to examine the dynamic strategic processes of SMEs that operate in dynamic environments. This is a highly dynamic sector and these findings may not be applicable to sectors of SMEs that belong to stable sectors. Further studies needs be carried in SMEs within less dynamic sectors. Third, the measure of perceived competitive advantage for SMREs, in particular, was relatively weak, because it asks owners/retailers for their competitive position in terms of cost leadership, improved quality and market responsiveness yet they felt that this is the preserve of the large retailers. Future studies could focus on SMREs contextual variables such as effect of regulations, access to credit and location among the key variables that determines their competitive advantage (disadvantage).

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

The chapter reviews the theoretical and empirical literature underlying the study, conceptual framework that illustrates the relationship between the independent variables, dynamic capabilities and dependent variable competitive advantage along with mediating variables the enterprise’s competition and customer-orientation that influence this relationship. The study then proceeded to present the theoretical model of capabilities influencing business competitive advantage, a critique of the literature, the research gaps and the summary.

2.2 Theoretical Framework

In order to elaborate on the relationship between dynamic capabilities and competitive advantage, the researcher focused on the following theories as elucidated by numerous researchers:

2.2.1 The Resource-Based View

Resource-based view (RBV) of the enterprise, a perspective that drew heavily from Penrose (1959) theory of enterprise growth and popularized through works by Wernerfelt (1984) and Barney (1991) has become the conceptual base for a number of studies. The traditional models of the RBV was theorized in 1991 and is still acknowledged after 20 years, as one of the most capable model for studying and analyzing resource strategy relationships (Barney *et al.,* 2011). This model underlines the importance of enterprise internal resources in order to reach a competitive advantage. A holder of a resource is able to maintain a relative position vis-à-vis other holders as long as these act rationally (Wernerfelt, 1984). Moreover, Barney (1991) argues that enterprises in the same sector can be heterogeneous in respect to their own resources and as resources are not perfectly transferable among enterprises, the heterogeneity and the consequent competitive advantage achieved could be durable over time. In this perspective, the resources are fundamental in order to explain the sustained competitive advantage of enterprises (Barney *et al.,* 2011). Different kinds of resources, such as, physical resources, human resources, organizational resources) give various contributions to the achievement of a sustained competitive advantage depending on how they are organized. The concept of capabilities derived from further research in RBV refers to the enterprise skills to organize resources. Whereas the resources include the assets, tangible and intangible, possessed by the enterprise (Amit & Schoemaker, 1993), capabilities are referred to as the enterprise's ability to develop a set of activities through resource deployment in order to reach a desired end (Helfat & Peteraf, 2003).

Day and Nedungadi (2004) refer to capabilities as complex of bundles of skills and accumulated knowledge, exercised through organizational processes that enable enterprises to coordinate activities and make use of their assets. In other words, the capabilities represent the skills allowing enterprises to deploy resources to reach a desired objective. To reach a sustained competitive advantage, the capabilities should be valuable, rare, difficult to identify and understand, imperfectly transferable, not easily replicated and substitutable (Barney, 1991). Despite an increase in literature devoted to advancing the RBV conceptually and empirically, this theory has been criticized for a number of reasons. First, from the perspective of modern strategic management, the early (Penrose, 1959) understanding of competitive advantage was missing a dimension in that she didn't address the question of how enterprises develop sustainable superior competitive advantage, but instead implicitly adopted a profit-seeking framework.

Second, it is regarded as a static theory because it fails to address the fundamental issue as to how future resources can be created (Priem & Butler, 2001). Third, RBV like Porter's competitive forces model could not account for competitive advantage for enterprises in highly dynamic markets. Additionally, the model does not specifically address how future valuable resources could be created or how the current stock of valuable, rare, imperfectly imitable and imperfectly sustainable resources can be refreshed in an unstable environment. This theory has extensively been criticized for being too abstract and thus lacks operational validity (Priem & Butler, 2001). Notwithstanding, scholars such as (Borch, Huse, & Senneseth, 1999; Schroeder, Bates, & Junttila, 2002), have long tested basic tenets of RBV and culminated in consistent results and such criticisms have been regarded as academic (Lahiri, 2013).

2.2.2 Dynamic Capabilities Framework: Sensing and Seizing Opportunities, Reconfiguration of Resources

In contrast to the main thrust of the resource-based view, the dynamic capability framework holds that management scholars needed a framework to explain how enterprises' responsiveness and innovativeness become timely, rapid and flexible in dynamic markets. Based on a review and synthesis of the literature, a dynamic capability is the enterprise's potential to systematically solve problems formed by its propensity to sense opportunities and threats, make timely and market-oriented decisions and to change its resource base (Barreto, 2010; Di Stefano, Peteraf & Verona, 2010). Easterby-Smith, Lyles and Peteraf (2009) concluded that dynamic capabilities are higher-level capabilities, which enable 'knowledge gathering and sharing, continual updating of the operational processes, interaction with the environment and decision-making evaluations'. Many authors have come to share the view that dynamic capabilities are higher order enterprise-level capabilities (Zahra, Sapienza & Davidsson, 2006; Barreto, 2010; Heimeriks, Schijven and Gates, 2012) categorized according to the activities they perform, such as coordination, learning and reconfiguration (Teece, Pisano & Shuen 1997); integration, reconfiguration and gaining and release of resources (Eisenhardt & Brown 1999); or sensing, seizing and managing threats (Teece, 2007). At a higher level, Augier and Teece (2009) suggested that dynamic capabilities have a tripartite structure: 1) the capability to sense opportunities; 2) the capacity to seize opportunities; and 3) the capacity to manage threats through combination, recombination and reconfiguration of assets inside and outside the enterprise's boundaries which informed this research.

a) Sensing Capabilities

Sensing capabilities entails the monitoring of the changing business platform and emerging opportunities. Jantunen, Ellonen and Johansson, (2012) stated that this deals with an enterprise's ability to detect emergent opportunities and create new knowledge on how to adapt. Sensing opportunities is only part of the process, but also about sensing the right opportunities, which is no easy task. This is a process that requires learning, interpretation and creative learning (Teece, 2007). Further, he explains that the ability to identify opportunities is dependent not only on the enterprise's learning and knowledge capacities but also those of the individuals within the enterprise. For an enterprise to have an effective sensing process, the individuals in the enterprise must have the right skills to complement the enterprise's knowledge assets. Research states that engaging stakeholders like the customer or supplier in the sensing process can contribute to new innovation which should be integrated into the process (Teece, 2007).

Ridder, (2012) says that enterprises require the dynamic capability of external sensing for recognizing valuable sources of external resource renewal. The researcher says sensing refers to the recognition of technological opportunities and the mobilization of requisite resources. Once the knowledge sources have been recognized as valuable opportunities, these opportunities need to be seized in order to optimize their outcomes. Zahra, Sapienza and Davidsson (2006) adds that, frequent dynamic capability deployment also indicates that enterprises regularly look for market opportunities and threats against which to align their resource base. This leads to the resource base being better aligned to the market place and consequently improves competitive advantage. Frequent deployment of dynamic capabilities may also lead to more efficient responses to major changes in the market place while enterprises with little experience of deploying their dynamic capabilities will find altering their substantive capabilities more difficult, more costly and less effective.

b) Seizing Capabilities

Sensing the right opportunity is one thing and seizing the opportunity is another. Teece (2007) recognizes the fact that enterprises may sense an opportunity but may not be able to seize the opportunities in the right manner, as they are two completely different actions. It is possible that an enterprise can sense the right opportunities and not be able to seize them at the right time. Jantunen, Ellonen and Johansson, (2012) describe this second component as an enterprise's capacity to adjust and incorporate knowledge and use it to commercial ends. They basically say it is more than just seizing that opportunity, but it is about how it is absorbed into the enterprise and incorporated with the other variables. Seizing refers to the organizational strategy for integrating resources to create and capture value from opportunities (Ridder, 2012). According to her, enterprises need to be able to absorb the knowledge contained in the external sources and to be able to integrate it into their internal innovative processes. She says that the dynamic capability of external seizing refers to the capacity to address opportunities for external renewal and implement external resources within the enterprise. Hierarchical structures and bureaucratic decision-making processes may hinder the innovation process. These processes are usually in place because enterprises are more comfortable with incremental innovations as opposed to radical innovations and hence why there is a need for opportunities to be screened first. By delaying the time it takes to seize an opportunity due to the need of approvals from higher order decision-makers, an enterprise may miss out on opportunities (Teece, 2007).

c) Reconfiguration Capabilities

Jantunen, Ellonen and Johansson, (2012) refer to this as the ability of an enterprise to reassemble resources and knowledge in order for innovation to take place. Transformation stage takes place after the right opportunities have been sensed and seized and it is achieved when these opportunities are addressed in conjunction with enterprise knowledge assets, competencies and resources. Teece (2007) discusses the concept of co-specialization, or the continuous realignment/strategic fit with the external environment. By this, the scholar implies that if the combination of resources, knowledge and competencies are correct to adapt to the external environment, the enterprise would have successfully realigned itself with the new state. Ridder (2012) says that such leveraging may also exist in the context of externally generated resources. The dynamic capability of external reconfiguring can also be described as a combinative capability that refers to a novel synthesis of external and internal resources into new innovations. Such the dynamic capability of external reconfiguration refers to the capacity to recombine external resources internally in order to achieve novel configurations that serve new purposes.

Despite a general consensus around Teece's framework, authors have tried to extend it and provide more refined sources and processes of dynamic capabilities, which eventually lead to sustainable competitive advantage. For example, well-developed transactive memory organizational systems can build up dynamic capabilities through building new knowledge assets and reconfiguring and integrating existing ones (Argote & Ren, 2012). However, most of the micro-foundations mentioned are located inside organizational and enterprise boundaries, thus, a need for including external factors as antecedents of dynamic capabilities is highlighted (Winter, 2003; Ambrosini & Bowman, 2009; Protogerou, Caloghirou and Lioukas, 2012). Competitive intensity, for instance, has been proven to be an enabling external factor in fulfilling dynamic capabilities' purposes (Wilden *et al.,* 2013). Furthermore, complexity, uncertainty, munificence in external environments, as well as path dependencies are other external factors enabling or inhibiting dynamic capabilities' aspirations (Ambrosini & Bowman, 2009). To summarize, dynamic capabilities appears to be an appropriate theoretical framework to study how enterprises identify and respond to changes in their external environment. Customer and competition responsiveness in designing competitive strategies for example, are pointed out as dynamic processes instrumental in creating and sustaining competitive advantage. This thesis contributes to this literature by specifying exact types of strategic dynamic processes and by offering a thorough explanation of change as an enhancing external factor of dynamic capabilities competitive advantage.

2.2.3 Dynamic Strategic Orientations

Strategic orientations are commonly recognized as valuable resources that facilitates the achievement of competitive advantage and greater organisational competitive advantage (Ruokonen & Saarenketo, 2009). While there is a large body of studies on the more prominent strategic orientations such as market and entrepreneurial orientations (George & Marino, 2011; Lisboa *et al.,* 2011), there is limited knowledge on the extent to which competition and customer orientations may simultaneously drive business competitiveness (Cadogan, 2012; Laukkanen *et al.,*. 2013).

The retail market dynamics and complexity of the external environment are pushing enterprises not to rely solely on their internal resources for competitive advantage. As noted by Alvarez and Barney, (2007) and Dyer and Singh, (1998), one of the key strategic challenges of small and medium retail enterprises is that they hardly possess all the necessary resources to seize rapidly emerging market opportunities. Buttressing this point, Dyer and Singh, (1998) argues that, small and medium enterprises create value from the combination of both their internal and external resources. Recent studies on the strategic literature suggest that enterprises' competitive advantage are influenced by external resources acquired through competitors, suppliers, customers, consultants, research institutions, alliances and acquisition. For example Karim and Mitchell, (2000) find that acquisition not only assist enterprises to build on existing resources, but also enable them access sustainable resources as well.

a) Competitor Orientation

Understanding competitors can help the enterprise to re-organize and improve their own business processes and to develop and re-configure internal resources, to improve the enterprise's competitiveness and ability to compete with the other market players (Rodríguez-Díaz & Espino-Rodríguez, 2006). Hooley *et al.,* (2000) argues that enterprises with higher competition orientation will follow a more aggressive, externally focused approach (via developing relational capabilities) and will aim to strongly differentiate their offer from that of competitors (Kale, Singh, & Perlmutter, 2000). Therefore, closer attention to competition will enable the enterprise to develop capabilities to better manage in important business relationships.

Business enterprises especially the small and medium-retail enterprises are in a situation where they need to survive in the current business environment, which is described as being 'hypercompetitive' (Augier & Teece, 2009). According to Chesbrough, (2010), external environment's role in how business enterprises operate is becoming increasingly complex and internal resource base is no longer sufficient as a competitive advantage. Dynamic capabilities have become a key approach when enterprises are trying to enhance or achieve new forms of their competitive advantage with other enterprises especially the larger enterprises in the dynamic environment by improving their day-to-day practices (Augier & Teece, 2009).

By identifying how to adapt can be a key tool to the competitive advantage of an enterprise and to achieve superior competitive advantage, avoid the zero profit trap and bring forward new competitive scenarios (Jantunen, Ellonen & Johansson, 2012). Winter (2000) states that without dynamic capabilities, an enterprise will not be able to sustain the resources and competencies it has for a long term competitive advantage. Research indicates that it is about how enterprises can cultivate new skills and routines that enable them to take advantage of these competitive opportunities. This is why there is a need to combine an enterprise's exclusive dynamic capabilities and other contextual elements in order to have a competitive (Cepeda & Vera, 2007). In addition, recent evidence argues that though some degree of competition can provide pressures for greater efficiency, high levels of competition almost always reduce enterprise profitability (Scherer & Ross, 1990)**.** This literature assumes that enterprises face identical levels of competition. Many strategic scholars have attempted to explain that an enterprise's competitive intensity is influenced by its ability to gain market share with using its resources in the context of evolution and uncertain environments while facing challenges from other actors who make similar efforts (Newbert, 2008).

Thomas and D'Aveni, (2009) believe that this definition recognizes that some enterprises are more likely to exert greater competitive pressures and affect the viability of competitors more significantly than others. An examination of competitive intensity by Griffith *et al.,* (2012) shows that enterprises face higher levels of competitive intensity as a result of lack of distinctive resources or the inability to utilize such resources. In today's complex and dynamic environment, the enterprises need to design and adopt the strategies by which they can improve organizational competitive advantage. The reason is that the enterprises that can compete with their competitors and adapt them with dynamic and variable conditions are successful enterprises in action. In other words, organizational success and improvement depend on their understanding of intra-organizational factors and recognizing their competitors as effective environmental factors (Sirmon *et al.,* (2007) All enterprises need to follow the potential competitor’s actions which are in the market or can be in the market to compete. In this scope, it is of essence to understand and follow competitors’ products and processes (Mavondo *et al.,* 2005). Competitor-orientation is to define, analyze competitor actions and the reacting capacity (Gatignon *et al.,* 2002). In other words, it means to define competitors’ strong and weak sides in short term, understand the abilities and strategies of existing and potential competitors. All technologies that can meet customer request must be evaluated during the analyzing of existing and potential customers (Noble *et al.,* 2002). Competitor-orientation focuses on an in-depth evaluation of competitors. Enterprises concentrate on competitor's goals, strategies, activities, products or services, resources and abilities through the information gathered from this evaluation (Olson *et al.,* 2005).

Competitor-orientation involve, collecting market outputs about customer and use sales power to regular follow-up for competitor actions., Enterprises can thus obtain technological improvements to meet customer needs to have a fast action for opportunities and competitor threats (Siguaw & Diamantopoulos, 1995). Competitor-orientation can enhance an enterprise’s competitive advantage by allowing it to benchmark with, learn from, imitate and improve on the products of successful competitors (Drew, 1997). Unlike the long-term benefits of customer-orientation, empirical research has produced widely divergent findings on the relationship between competitor-orientation and organizational competitive advantage. Noble *et al.,* (2002) identified a positive relationship between competitor-orientation and organizational competitive advantage. Harrison-Walker (2001) discovered that no such relationship exists. Armstrong (2007) found the existence of a negative relationship while Luo (2001) claimed that there is a curvilinear relationship between the two.

b) Significance of Competitor-orientation

Attaining high competitive advantage of an organization relies on creating stable competitive advantage and offering stable value for customers. This assures the organization to set up and keep a kind of organizational culture, which provides a required field for revealing necessary behaviours. It can thus be said that it is the organizational cultural competitor-orientation that provides the required behaviours for making best value for customers and consequently sustained superior competitive advantage through maximal efficiency and effectiveness (Narver & Slater, 1990). For small organisations, competition is a serious threat, but lack of resources (such as capital) often means they cannot afford to collect information on competitors, or if they do, they lack the resources to react effectively. It is important to understand how different characteristics, limitations and advantages of small organisations influence their operations. From a business development perspective, it is also necessary to provide small business retailers with advice on how to better manage their businesses and to position them more competitively (Zatezalo, 2002)**.** Some researchers consider competitor's orientation as an important part of market-orientation, for example; Hunt (2002); Narver & Slater, (1990).

Competitor-orientation is associated with a wider view of organization towards market features in which it starts working. A unique approach towards customer may lead to an impaired business competitive advantage and strategy (Hunt, 2002). Hence, Wensley and Day, (1988) have suggested making a balance between organization's attention towards customer and competitors. Competitor-orientation consists of collecting information about competitors', activities and their products and also market potentials. Competitor-orientation helps an enterprise to understand its weakness, strength, capabilities and strategies of main potential competitors. Mueller *et al.,* (2001) states that enterprises must identify and recognize long-term weaknesses and strengths and also long-term capabilities and strategies of their current and future competitors as regards this issue may lead to better competitive advantage and special attention towards customers.

c) Customer Orientation

This involves an understanding of customers. Extended customer understanding can result in the development of current and new products and it can strengthen an enterprise's survival in the market (Zhou *et al.,* 2007). Responsiveness to competitors' actions may involve improving existing products and strengthening relationships with business partners. Every organization's survival depends on satisfying customers' needs and expectations. Therefore, customer loyalty and higher market share is possible through focus on the customers' needs and expectations (Mokhtari, 2012)**.** Based on the strategic management principles, the enterprises' success depends on their ability in customer satisfaction in comparison with their competitors. To do this, competitive strategies not only should consider potential customers' needs and wants, but also pay attention to their competitors' strategies (Mohebali & Farhangi, 2006). In other words, every organization should be able to offer better, cheaper and more innovative products in a short time (Hejazi & Albadvi, 2005). In this regard, researchers refer to the importance of combining dynamic capabilities and strategic-orientation to leverage competitive advantage (Smirnova *et al.,* 2011)**.**

Swift (2001) points out that customer-orientation includes all of the processes and technologies that an organization uses to recognize, select, motivate, develop and maintain customer services. On the other hand, Brown *et al.,* (2002) stressed that customer-orientation is business strategy for managing customers' interactions for optimizing their long-term value and satisfaction. Customer-orientation is defined as, the set of beliefs that puts the customer's interest first, or, enterprise's ability and will to identify, analyze, understand and answer user needs (Deshpande *et al.,* 1993). It also refers to the business philosophy of putting customers at the forefront of strategic and tactical planning and decision-making in the hope of providing superior value and satisfaction (Noble *et al.,* 2002).

Auh and Menguc, (2005) defines customer-orientation as capacity to share information about customers in an organization, find the strategy to satisfy the market and practise it all over the enterprise. It is to understand the customer for value-creation. Customer-orientation is a duty of an organization to collect information about customers' needs and wishes, define the strategy to meet customer needs and to put into practice. Customer-orientation is to listen to the customer wishes and claims, give high priority for after sales activities, search opportunities to give support for valuable products or service and regular follow-up of customer satisfaction level (Mavondo *et al.,* 2005).

Customer-oriented enterprise is an enterprise which can understand, define, analyze the customer needs and meet the customer requests (Gatignon *et al.,* 2002). This means putting customers in high priority. It covers the ability to create value for them by meeting their requests for existing needs and trying to determine future needs (Mavondo *et al.,* 2005). In this case, the aim is to protect current situation and act by considering the next customers. Customer-orientation is being proactive to meet urgent customer requests, focus on customer satisfaction and to supply continuous improvement (Han & Kim, 2000).

Global competition increases market turbulence as well as the richness and diversity of knowledge possessed by customers and competitors (Achrol, 1991). A customer-oriented enterprise which commits itself to superior customer service and integrates customer preferences and needs into its product development strategy has the best guarantee for long-term (Grawe *et al.,* 2009). To survive in a highly competitive marketplace, an enterprise's priorities should be to; identify the right market; formulate the most suitable entry strategy; target customers that can provide high life-time value; fully understand customers' preferences and needs; and closely monitor changing market needs so that new products can be developed to satisfy them (Ching *et al.,* 2004).

A competitive new product should not only be customer-oriented but also a forward-looking product that anticipates and meets potential gaps in the market (Hurley & Hult, 2008). To this end, an enterprise should timely and accurately generate customer demand information and pass it to the research and development and strategic departments so that they can work together to effectively meet market needs (Voss & Voss, 2000; Kohli & Jaworski, 1990). Enterprise's ability to cheaply and swiftly introduce new products that meet customer needs is key to long-term success (Datar *et al.,* 1997). Customer-orientation means that the attention of the research and development and strategic departments are attuned to the voices of its customers (Atuahene-Gima, 2003). Incorporating this as a part of the enterprises organizational culture increases the chances of gaining a competitive advantage (Grinstein, 2008).

Merlo *et al.,* (2006) argues that, developing a high quality relationship with the customers to respond better than its competitors is an important source of competitive advantage. For customer-oriented enterprises in the retailing industry, it means offering an above average qua1ity service while proposing the right business offer and develop consequent strategies in order to attract and retain customers, to create recurrence in their purchasing patterns, to enhance their shopping experience and to develop their loyalty (Grewal & Keishnan, 2008; Wallace, *et al.,* 2004). According to Rayport and Jaworski (2004), the specific relationship between the retailer and the customer represents the new frontier of competitive advantage. Customer-orientation can be adopted through a product-oriented perspective, which aims to propose the customer with a quality and valued product offering. Such an orientation also tends to respond to non-expressed needs. According to this orientation, products are considered as a profit centre and retailers must have the range of products that meets the customers' needs (Panigyrakis & Theodoridis, 2007). The objective is to sell more products in order to gain market shares. The service-oriented perspective is more focused on creating value for the customer by offering him a high quality service, answering its needs and preferences and the relationship between the retailer and the client (Ryals, 2002).

d) Significance of Customer-orientation

Hasanzadeh (2010) argues that, today competition in the market has grown deeper and responding to customers' needs with the aim of satisfaction and loyalty gains more significance and enterprises should emphasize on maintaining current customers and making long-term and profitable relation with them. The main view of maintaining customers is that satisfaction must be provided continuously through offering superior value. Being informed about customers' subjective image of the organization, in addition to highlight weakness and strength of the organization, provides the field for adopting suitable strategies and improving the level of competitive advantage. Today, value making for customer has a significant effect on their behaviour. The meaning of making value is what solves any problem of the customer and to satisfy their needs. In the global economy whose survival is in the hands of customers, enterprises cannot be indifferent towards customers' needs and expectations. They should drive their activities and capabilities towards customer's satisfaction because the only source of capital return is the customers. Therefore, the first principle in the world of business is to make customer friendly values and they are obtained just through enterprise's processes (A'ali, 2002)**.** Customer-orientation is defined as some activities to understand target purchaser and creating more value for them. It helps the enterprise in making products concerning customer's needs. In aspect the of customer-orientation, special attention should be devoted to commitment towards customers, making values for them, understanding their needs and evaluating customers' satisfaction and also after-sale services (Dalvi, 2014)**.**

2.2.4 Competitive Advantage

Competitive advantage is the enterprise's ability to implement a new market strategy that facilitates price reduction, productivity and ample utilization of market opportunities (Geneva, 2009). Competitive advantage is the ability to create value and the degree to which an enterprise has reduced costs, exploited opportunities and neutralized threats (Newbert, 2008). In other words, competitive advantage is the enterprise's ability to deploy valuable processes and resources, not implemented by the competitors, which can provide enterprises with opportunity over their competitors.

Considerable research on competitive advantage of SMEs is well documented in the literature. A majority of them focus on strategy, (Ledwith & O'Dwyer, 2008; Verbees & Meulenberg, 2004); innovation (Withers *et al.,* 2011; Rosenbusch *et al.,* 2011; Cakar & Erturk, 2010); human resources, (Kula & Tatoglu 2006; Al-Madhoun, 2003; Gadenne & Sharma, 2009); total quality management (Valmohammadi, 2011; Demirbag *et al.,* 2006; Huarng & Chen, 2002) and customer satisfaction, (Williams & Nauman, 2011; Dotson & Allenby, 2010). The world is changing more rapidly than ever before. Hence, retailers and other employees throughout an enterprise must perform at higher and higher levels. In the last 20 years, rivalry between enterprises competing domestically and globally has increased dramatically. Today, retailers who make no attempt to learn from and adapt to changes in the global environment find themselves reacting rather than innovating and their enterprises often become uncompetitive and fail (Jones & George, 2008).

Conversely, retailers who learn and adapt to changes in the global environment and who effectively and efficiently manage their knowledge-base achieve competitive advantage. Competitive advantage is the ability of one organization to outperform other enterprises because it provides desired goods and services more efficiently and effectively than they do (Jones & George, 2008). From the customers' point of view, competitive advantage is an enterprise's attractiveness to its customers in comparison to their rivals (Chan *et al.,* 2004). It is also viewed as diversity of features or any enterprises' dimensions that enables it to perform better services to customers in comparison with rivals (Hao, 1999).

However, Macky and Johnson (2003) opined that there is a difference between competitive advantage and 'sustained' competitive advantage. They described sustained competitive advantage as occurring when competitors are incapable of duplicating the benefits of an enterprise's competitive advantage and cease their attempts to do so. It is the 'cease' period in the enterprise's attempts at duplication that signify a 'sustained' competitive advantage. According to Chan *et al.,* (2004) some researchers agree that there are two main criteria by which enterprises can achieve this sustainability of advantage: firstly, given the dynamic environment, they need to be able to continuously identify, upgrade, rejuvenate and reinvent resources. Secondly, they need to have the ability to create an environment in which they can be self-reinforcing and enhancing in value and strength, thus causing sustained major cost disadvantages to imitating enterprises. Several models have explained the concept of competitive advantage as follows;

a) Game Theory in creating Competitive Advantage

This theory, also referred to as the zero-sum theory, has been a developing branch of economics in years. It spans games of static and dynamic nature under perfect or imperfect information. This theory is quite useful in analyzing sequential and highly dynamic decisions at the tactical level. It puts much emphasis on the importance of being pro-active or thinking-ahead, considering alternatives and anticipating the reaction of competitors and other players in the game, which is the industry or competitive environment (Brandenburger & Nalebuff, 1995). The game theory has been applied in the way enterprises compete in a particular industry, their relationship and interactions in situations of cut-throat competition, whereby one enterprise gains while another one loses within an unchanging total of market share and characteristics. It is based on various assumptions (such as utility) that enhance strategic thinking whereby each party faces a choice among two or more possible strategies (Gibbons, 1992; Brandenburger & Nalebuff, 1995).

The choice of strategy depends highly on the information that each party has. This could either be perfect or imperfect information and the strategic actions are simultaneous for the players, in this case competing enterprises in the same industry. The enterprises cannot collude into a particular decision since they make choices simultaneously. The zero-sum game involves just two players in which one player can only be made better off by making the other worse off (Brandenburger & Nalebuff, 1995). The game theory's application areas in competitive strategy are in pricing, research and development, new product introduction, advertising, regulation and in choice of either to undertake licensing or produce.

Understanding the game well can enable enterprises to create a win-win situation to make the enterprise to be in a better position than other players. Understanding the game well will also make the enterprise change the rules, players, tactics and scope of the game in the enterprise's favour. The applicability of the game theory in improving competitive advantage of enterprises can be seen in enterprise's choice of adopting a new technology and first-mover advantages, as well as cost leadership or pricing of its products and services. However, this theory has not been largely popular but it is applicable to oligopolistic businesses (Brandenburger & Nalebuff, 1995; Prahalad & Hamel, 1990; Murphy, 2005).

b) Porter's Generic Strategies

Porter (1980) developed the Five Force industry analysis Model, which has a theory that there are five forces that determine competition in an industry. These forces form the basic characteristics of competition in an industry. Hence the strongest competitive force determines the profitability of an industry and its importance in strategy formulation. By far, the Five Forces Model, which forms the basis of this study, is the most influential and widely used framework for evaluating industry attractiveness. Essentially, Porter (1980) postulates that there are five forces that typically shape the industry structure: intensity of rivalry among competitors, threat of new entrants, threat of substitutes, bargaining power of buyers and bargaining power of suppliers.

The five competitive forces reflect the fact the competition in an industry goes well beyond the established players. All the five forces jointly determine the intensity of industry competition and profitability and the strongest force or forces are governing and become crucial from the point of view of strategy formulation. To establish the strategic agenda for dealing with these contending forces and to grow despite them, an enterprise must understand how they work in the industry and how they affect the enterprises in its particular situation (Pearce and Robinson, 1997). Popularized by Porter, (1985), competitive advantage is achieved when enterprises implement value creating strategies that are not currently being realized by competitors or through superior execution of the same strategy as competitors. Hofer and Schendel (1978) describe competitive advantage as the unique position an organization develops vis-à-vis its competitors.

c) SWOT Analysis

SWOT is the abbreviation of strength, weakness, opportunities and threat. The SWOT analysis process was first introduced in 1960. This process is broadly used process for analyzing enterprises internal competence and external market demand. SWOT analysis process is straightforward model that identify what an organization capable of, what they can do and cannot as well as enterprises potential opportunities and threats. In SWOT analysis process information taken from the related environment and separate it into internal issues (strength and weakness) and external issues (opportunities and threats). Once the SWOT analysis done it determine what can support the organization to achieve its objectives and what difficulties should overcome or reduced to reach desire result. In particular, scholars defined good strategy as one that guarantees fit between the external situation of an enterprise and its internal qualities and characteristics. The SWOT analysis framework has two distinctive parts. First, it looks into the internal strengths and weaknesses of a business and then provides an external view of opportunities and threats (Luffman *et al.,* 1996). The classification of items in this four-field framework can be aided by a question list specially designed for this purpose (Lindroos, 2006). SWOT analysis is a simple tool for strategy analysis, but nevertheless presents certain challenges because of its structure: all attributes identified via analysis can be difficult to precisely fit to the pre-configured sections of the four-field analysis matrix. Point of view also heavily affects application and results. Some attributes can initially be viewed as threats but as lucrative business opportunities from a different angle (such as, from other business units) (Grant, 1998).

In the analysis, several complementary SWOT matrices can be used; for example, current and future states can be plotted to separate frameworks (Lindroos, 2006). The SWOT analysis matrix can also be enhanced by introducing aspects of the latest management theories (Valentin, 2001). The rating and selection of the items for classification under the SWOT categories can be based on numeric scores or weighting of items on the basis of their influence. The challenge, therefore, lies in ensuring an objective approach (Hosseini-Nasab, 2011).

Several fields and organisations, such as universities and government offices, apply SWOT in strategy analysis (Metso, 2011). Hill and Westbrook (1997), however, conclude that many SWOT applications show similar long lists of characteristics, generally meaningless descriptions and the failure to prioritize these characteristics or verify selected points. These observations suggest that SWOT analysis is not a highly effectively approach. Its most worrying aspect is that its output is not properly used in subsequent stages of the strategy process, thereby casting doubt on the reasonableness of its use in strategy analysis. Additionally, current highly competitive and unstable markets present difficulties in using the SWOT framework with difficulties given the rapidly changing and dynamic nature of selected strengths or weaknesses. The reason SWOT analysis is extensively and continuously used is that it is straightforward and necessitates little preparation (Hill & Westbrook, 1997).

According to Joint Research Centre (2007) SWOT analyzing process is a significant means of strategic planning and explanation of competitiveness. The process involves collection of information concerning internal and external factors that have an effect on the organization or industry performance. Internal factors within an organization could be the organization structure, capacity, capability, different resources availability; human resource, energy, capital, knowledge. Analysis of external environment needs consideration of different influences. Threats may include government engagements, activities by other competitors, inflation rate and technological changes.

d) Four corner strategy

Another strategy analysis framework proposed by Porter (1980) is the Four Corners model, which focuses on understanding competitors' strategies but can also be used for the 'self-analysis' of an enterprise' own strategy. The analysis framework is composed of four diagnostic components: future goals, current strategy, assumptions and capabilities. Understanding these four components provides insight into competitors' future strategies. Each component can carry a set of questions and characteristics for the purpose of analysis (Porter, 1980).

The future goals section is derived from the important perspective that enterprises have different goals and thus pursue varied strategic moves. For example, a competitor's financial goals reflect its current situation or whether it is looking to implement change. Leadership team background provides indications of goal setting and rewarding practices and external constraints can signify whether an enterprise can be more sensitive to certain players in the industry, such as government regulators (Porter, 1980).

The assumptions section presents another interesting view of a competitor's strategy. This perspective is related primarily to two aspects: a competitor's assumptions about rival enterprises and a competitor's assumptions on the industry and the other enterprises in it. This component can comprise questions and characteristic elements such as perceived industry forces and an enterprises' relative position regarding these. Similarly, beliefs about competitor goals have influence, as well as regional, cultural and national differences, that may be seen as orientation towards product quality at the expense of unit cost (Porter, 1980). The third component of the analysis framework is a competitor's current strategy, which may be explicit or implicit. The aspects to consider here are value creation path, business investment focus and the overall statements of an enterprises' future direction. In the simplest manner, the strategy characteristics in this section can be regarded as built from key visible operating procedures that a competitor has in place (Porter, 1980).

The fourth component is capabilities, which determine a competitor's ability to respond to strategic moves or industry changes. This section can feature a wide list of characteristics to be used as bases for analysis. Some examples are strategic skills, overall education of the employees, enterprises patents and copyrights, or the financial strengths of a competitor. A SWOT analysis type of approach can be used to gather information, which is then incorporated into this section to complete the Four Corners strategy analysis (Porter 1980) When completed, the analysis framework can be used to plot the offensive and defensive scenarios of a competitor or if the analysis is intended for enterprises self-assessment, it can focus on creating strategic positioning scenarios for the enterprises (Porter, 1980).

2.2.5 Linking Dynamic Capabilities to Competitive Advantage

Literature is discordant between dynamic capabilities and competitive advantage. Some works and notably Teece *et al.,* (1997) make an explicit link between dynamic capability and competitive advantage. If the enterprise has a dynamic capability, it must perform well and if the enterprise is performing well, it should have a dynamic capability (Helfat & Peteraf, 2003). Others have also linked dynamic capabilities to competitive advantage but have asserted that this link is indirect. For instance, Zott (2003) argues that, dynamic capabilities are indirectly linked with enterprise competitive advantage by aiming at changing an enterprise's bundle of resources, operational routines and competencies, which in turn affect economic competitive advantage. Ambrosini *et al.,* (2009) following the RBV, suggest that the VRIN resource base is directly linked to rents, but as dynamic capabilities are one step removed from rent generation, their effect is indirect.

While Helfat *et al.,* (2007) disconnect dynamic capabilities from competitive advantage, they suggest that the competitive advantage of dynamic capabilities should be evaluated and they propose two measures to do so. Those competitive advantage yardsticks are evolutionary fitness, which refers to how well the capability enables the enterprise to make a living by creating, extending, or modifying its resource base and technical fitness, which is about the quality dimension of capability competitive advantage. It captures how effectively a capability performs its intended function. Eisenhardt and Martin (2000) explains that the functionality of dynamic capabilities can be duplicated across enterprises, their value for competitive advantage lies in the resource configurations that they create, not in the dynamic capabilities themselves and while dynamic capabilities are certainly idiosyncratic in their details, the equally striking observation is that specific dynamic capabilities also exhibit common features.

Helfat *et al.,* (2007) definition of dynamic capabilities purposefully does not include a reference to competitive advantage (a comparative construct). Understanding the link between dynamic capabilities and competitive advantage requires a more general understanding of the term competitive advantage. Dynamic capabilities of opportunity identification (sensing) and investment in these opportunities (seizing) lead to new positions and paths, which then affect competitive advantage. Subsequent to investment, dynamic capabilities for recombination and reconfiguration can alter the accumulated asset base of the organization further, leading to an additional effect on enterprise competitive advantage and competitive advantage and to new positions and paths.

Eisenhardt and Martin (2000) describe dynamic capabilities as processes that enterprises can use to obtain, integrate, reconfigure and release resources, leading to new resources and resource configurations or new positions. Dynamic capabilities have a direct effect on competitive advantage, as well as an indirect effect through other contextual factors. Teece *et al.,* (1997) say that competitive advantage requires both exploitation of internal and external enterprise-specific capabilities and developing new capabilities. According to them, it is the core of the dynamic capabilities view how enterprises first develop enterprise-specific capabilities and then renew their competences in responding to changes in their business environment.

Ridder (2012) says that dynamic capabilities do not directly lead to competitive advantage, but dynamic capabilities change the resource base of the enterprise, which then affects enterprise's competitive advantage. The effect of dynamic capabilities to enterprise competitive advantage is therefore indirect. Chesbrough (2010) says that open innovation enterprises cannot treat their knowledge as static, they must treat it as fundamentally dynamic. Enterprise's strategy is embedded in its processes, assets and the paths available to it and these processes, assets and paths create boundaries for the enterprise (Teece *et al.,* 1997). The processes, routines and capabilities of the enterprise are the way the enterprise gets things accomplished and management's ability to effectively create, develop and coordinate capabilities and routines to ensure their efficient implementation, is what will give their enterprise an advantage.

Capabilities and routines are solutions and therefore, learning is the process by which they are developed. The more effective the organization is at learning, the more effective the capabilities and routines it develops will be in response to changes in the environment. It is then through the processes of coordination and integration by management that the transformation of capabilities and their routines is accomplished. However, for the reconfigured capabilities and routines to give an enterprise an advantage, they must be implemented and performed efficiently and effectively. Therefore, the alignment of rewards and incentives plays a key role in the effective implementation of capabilities and routines. It is important from a strategic perspective that employees of the enterprise be rewarded for their contributions (Teece *et al.,* 1997).

Asset position in the dynamic capabilities framework refers to assets that are enterprise-specific, exclusive to the enterprise, built from the know-how of the enterprise and not easily imitated or traded, which means they cannot be purchased in the factor or product markets (Barney, 1991). Not all enterprises have the same dynamic capabilities. Types of dynamic capabilities an enterprise develops has to do with the environment in which the enterprise operates; moderately changing, rapidly changing, or high velocity and the level of the enterprise's commitment to recognition and acceptance of future change in the environment. High degree of recognition by management that the enterprise needs to be proactive and prepared for change will separate that enterprise from other enterprises that believe they will simply adapt to change when it actually occurs. The creation and use of dynamic capabilities implies a changing environment. And when an environment is rapidly changing, it is very difficult for the enterprise to maintain a competitive advantage for very long. The earlier an organization is alerted or senses change in its environment and alters its resources to adapt and maintain its competitive advantage, the longer it will have to enjoy its advantage over its competitors.

Therefore, an enterprise must have routines that constantly make surveillance or scanning of the environment and market conditions the norm, or risk losing any advantage it has obtained (Eisenhardt & Martin, 2000). Donaldson (2001) argues that, the processes of scanning the environment and markets, interpreting and evaluating that information, gaining an accurate understanding of how this impact on the organization and reconfiguring/recombining resources to stay ahead of the competition is another factor that will give an enterprise a competitive advantage. However, in all of these treatments, organizational processes play a central role. It is therefore inaccurate to suggest that, dynamic capabilities jumps directly to modelling the change-competitive advantage relationship' without considering underlying strategic contextual factors.

2.2.6 Dynamic Capabilities, Strategic Orientation Factors and Competitive Advantage

Prior studies have supported the view that the relation of capabilities to competitive advantage may vary due to the influence of contextual orientations (Wade & Hulland, 2004; Dale & Muhanna, 2009). For example, some studies have found a positive effect of technological capability on competitive advantage, while others have found negative or non-significant effects (Brynjolfsson *et al.,* 2002; Bhatt & Grover, 2005). These differences may be present due to contextual influences indicating that the contextual dimension in which an enterprise adopts may affect the relationship between capabilities and competitive advantage. For example, the advantage of a certain capability may reduce or increase depending on the influence of the industry in which the enterprise operates.

This study examined the influencing role of contextual factors in the dynamic capabilities view. Dynamic environment is characterized by instability and continuous change. The scope for taking advantage from a certain capability and strategy tends to be short-lived and changing (Teece *et al.,* 1997). Thus, sustaining the advantage is difficult for enterprises as they need to constantly adjust based on environmental changes. In a hostile environment, there is an increased threat from competitors and the customer demand for products is low. Enterprises operating under these conditions may aim to diversify into new markets and use their distinctive capabilities for attracting new customers.

Thus, it can be difficult for enterprises with a single capability focus to sustain their competitiveness in such an environment (Wade & Hulland, 2004). Enterprise age and size can also have an effect in the RBV context. For example, young enterprises usually lack well-developed routines compared to older enterprises. This would give a certain level of advantage to more stable and older enterprises. However, younger enterprises can also have the distinctive capability that helps them in gaining advantage, such as introducing innovative products based on new resource combinations (Grant, 1991). Similarly, larger enterprises would have a greater variety of resources and capabilities at their dispensation which could help them to sustain competitiveness for a longer period over smaller enterprises with limited internal resources and capabilities. Thus, several contextual factors can have a significant influence on the relations between capabilities and competitiveness. However, the next section narrowed down the scope of this study based on the context of small and medium-retail enterprises in Kenya and presented the study's conceptual model.

2.2.7 Critique of the Theoretical framework

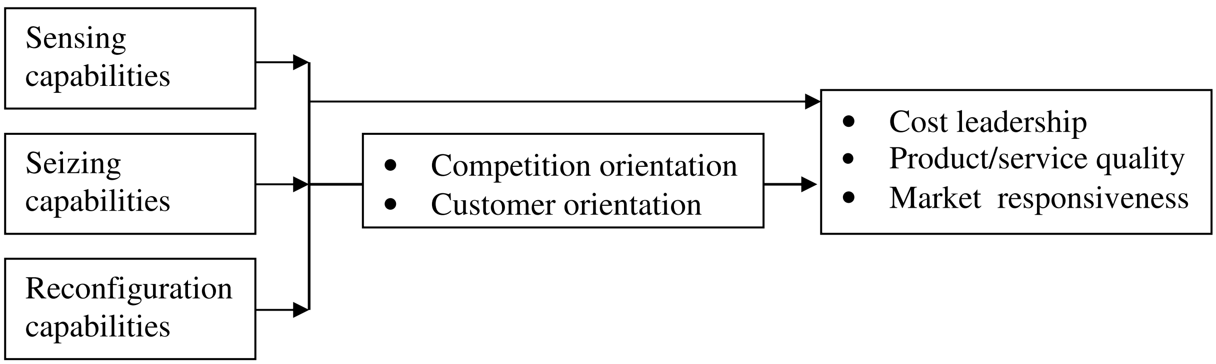
Even though the dynamic capabilities approach has become a major research stream in strategic management, confusion and scholarly debate are still predominant. Plentiful articles trying to demystify the approach indicates the ongoing and prevailing uncertainty, such as 'dynamic capabilities' what are they?' or 'how are they explicated?' (Teece, 2012). Other authors even doubt the suitability of the dynamic capabilities approach to explain an enterprise's competitive advantage. Collis (1994) dampens enthusiasm about the concept by stating that capabilities can be valuable, but are not always a source for a sustainable competitive advantage. He argues that capabilities are vulnerable to being superseded by higher-order capabilities. He adds that, strategic management research will never be able to identify the ultimate source of a competitive advantage. Organizational capabilities, just like certain assets, could be a part of a competitive advantage, but just in certain settings and at a certain point in time.

Lack of empirical data intensifies the general confusion about dynamic capabilities. Davies (2004), for example, criticizes strategic management research, especially the resource-based theory of the enterprise and the dynamic capabilities perspective for lack of robust explicit measures of these concepts or compelling evidence of their contribution to differences in competitive advantage at the different enterprise size level. Furthermore, extant empirical analyses often concentrate on variables that can measure what may exclude certain immeasurable capabilities, which could be crucial for the enterprise. By reviewing the extant literature on the relevant topics addressed in this thesis, the confusion and the uncertainty become apparent.

2.3 Conceptual Framework

In the context of small and medium-retail enterprises, two prominent strategic orientations were proposed in this study to have a significant role for achieving competitive advantage and these are competition orientation and customer-orientation given the enterprises dynamic capabilities of sensing, seizing and reconfiguration. Figure 2.1 illustrates the conceptual model for the study. The research conceptual framework was based on the reviewed variables under study and presented graphically the interaction of the different variables in influencing and determining the objective of the study relationships. Dynamic capabilities (sensing, seizing and reconfiguration capabilities) were considered as the independent variables. Competitive advantage of retail SMEs in terms of cost leadership, perceived quality improvement and market responsiveness considered as the dependent variable, while strategic orientations (customer and competition) were the mediating variables.

Dynamic capabilities **Strategic orientation** **Competitive advantage**



Independent variables **Mediating variables (SO)** **Dependent variable**

Figure 2.1: Conceptual Framework

2.3.1 Review of Variables Relevant to the Study

a) Dynamic Capabilities

The independent variables of this study were the dynamic capabilities whose constructs comprise (i) sensing capabilities; (ii) seizing capabilities; and (iii) reconfiguration capabilities. The relationship between the different constructs both direct and indirect influence on the dependent variable was considered. The independent variables indicated above, therefore, constitute the independent variables which when grouped constitute the dynamic capabilities of the retailing SMEs in Kenya given the changing retail market scenario. According to Kothari (2006), independent variable is typically the variable that can be controlled or manipulated to influence the dependent variable.

Eisenhardt and Martin (2000) argue that dynamic capabilities are a set of specific and identifiable processes by which retailers alter their resource base acquire and shed resources, integrate and recombine them to generate new value creating strategies. For instance, product development routines by which retailers combine their varied skills and functional backgrounds to create revenue producing products and services. New products have been indicated as the most natural driving force behind change and renewal at the corporate level (Danneels, 2008). Similarly, strategic decision-making is a dynamic capability in which retailers group their various business, functional and personal expertise to make the choices that shape the major strategic moves of the enterprise (Pablo & Reay, 2007). Definition of dynamic capabilities can conceptually be disaggregated into the enterprises' capacities to: 1) sense and shape opportunities, 2) seize opportunities and 3) redeploy and reconfigure (create, extend and modify) their resource base (Teece, 2007). Sensing and shaping opportunities and threats involves scanning, search and exploration activities across markets and technologies. This requires the organization to maintain close relationships with customers, suppliers and research and development partners and to observe best practices in the industry. Seizing opportunities involves the evaluation of existing and emerging capabilities and also possible investments in relevant designs and technologies that are most likely to achieve marketplace acceptance (O'Reilly & Tushman, 2008). Reconfiguring the resource base is the enterprise's capacity to recombine resources and operating capabilities as the enterprise grows and as markets and technologies change (Teece, 2007).

Drawing on the contingency theory, this research argues that both the internal and external contexts within which dynamic capabilities are embedded, are important in understanding their effects to competitiveness. Internal fit, characterized by compatible dynamic capabilities and strategy orientations towards the customer-orientation while external fit, is reflected in corresponding dynamic capabilities and levels of competitive intensity hence competition-oriented. This represents the two fundamental conditions that facilitate the role of dynamic capabilities in affecting competitive advantage of SMREs in Kenya.

b) Strategic Orientation

The mediating variables under the study are the strategic orientation both competition-oriented and customer-oriented choice of capabilities deployment. Mediating variables are constructs both internal and external environmental factors which prevail and that have an influence on the interplay between the independent and dependent variables. Internal environment is considered under the enterprises strategic orientation both competition-oriented and customer-oriented strategies and how it shapes the deployment of capabilities for competitive advantage. According to Mugenda and Mugenda (2003), a mediating variable is one that has a strong contingent effect on the independent variable and dependent variable relationship. That is, the presence of a third variable that modifies the original relationship between the independent and the dependent variables. In this study, the mediating variables were conceptually taken as competition orientation and customer-orientation. Concept of customer-orientation includes understanding customers' needs and satisfying them as well as perceiving and reducing his perceived sacrifices. Conceptually, close to what other researchers describe as customer-orientation. Homburg and Pflesser (2000) suggest closeness to the customer, with dimensions such as openness in providing information to customers and flexibility in dealing with customers, to describe how enterprises should interact with their customers.

Consequently, a customer-oriented enterprise has to establish continuous communication with its actual and potential customers and create a customer-focused environment within an enterprise (Hartline *et al.,* 2000). Thus in summary, customer-orientation can be regarded as the set of beliefs that puts the customer's interest first, while not excluding those of all other stakeholders such as owners, retailers and employees, in order to develop a long-term profitable enterprise. Competitor-orientation on the other hand comes along with a business wider understanding of what characteristics has the market where it is operating. An exclusive customer focus may result in incomplete business strategy and action, hence, (Day & Wensley, 2008) suggest a balance of an organization's customer and competitor focus.

Competitor-orientation additionally entails sourcing information on competitors, competitors' activities and offerings and market potentials. In this research, competition orientation was conceptualized as the environment that has been brought about by the large retailing enterprises. Competitive intensity has increased the level of competition in a market due to number and activities of alternative suppliers, that is, competitors, for the same customers in the same market. This implies that, the customers have more options and choices for satisfying their needs. To develop a comprehensive concept of market dynamism, they include also the actions and reactions of competitors to changing customers and customers' requirements and their influence on the capabilities development of the small and medium-retailers.

c) Competitive Advantage

The dependent variable under study is competitive advantage of SMREs which was measured in terms of cost leadership, perceived quality improvement and market responsiveness. The purpose of measuring competitive advantage as a dependent variable was to make sure that SMREs meet their objective of cost leadership, perceived quality improvement and market responsiveness. Kothari (2006) averts that dependent variable, is the variable that is being measured or determined by use of independent variable. Competitive advantage was in respect to the Kenya's SMREs. In this research, the hypothesized results of successful deployment of dynamic capabilities given the enterprises strategic orientation were cost leadership, perceived quality improvement and market responsiveness.

2.4 Empirical Review Relevant to the Study

Study conducted by Charles *et al.,* (2012) adopted a causal research design based on the Resource Based View (RBV) logic in linking strategic orientation and organisational performance in the Kenyan manufacturing sector. The authors argued that strategic-oriented enterprises enjoy a knowledge advantage that differentiates them from their competitors, which may enable them to perform better in managing the surrounding environment and hence to achieve the intended performance. Their research findings supported positive influence of strategic orientation on enterprises' ability to response to dynamic environment and to attain organisational performance.

The study of Fey and Birkinshaw, (2005) also indicated that research and development competitive advantage is influenced by resources from competitors and other institutions. Laursen and Salter (2006) study shows a link between enterprises seeking external innovation ideas and competitive advantage. Teece, (2007) study reveals that enterprises adapt to business ecosystems and shape them via innovation and collaborations with competitors and other institutions**.** Allred *et al.,* (2011) argued that an enterprise's capability to create value could be investigated by measuring its achieved performance with regard to customer satisfaction in addition to other indicators such as productivity. The empirical studies of Ho *et al.,* (2010) and Chan *et al.,* (1997 however indicated that, strategic relationships among small and medium enterprises show no increase in strategic value. In the same vein, the findings of Flynn *et al.,* (2010) indicate that customer integration relates directly to operational competitive advantage.

The study of Nieto and Santamaria (2010) reveals that SMEs' collaboration with customers has the greatest impact on SMEs innovativeness leading to superior performance. Similarly, Lu *et al.,* (2008) finds that small vegetable farmers' relationships with customers enable the former get access to international and other local markets. Prior research shows that the relationship between enterprises and their suppliers improves the competitive advantage of the former (enterprises). Adams *et al.,* (2012) find that SMEs-suppliers relationship improves SMEs organizational competitive advantage such as relative competitiveness, profitability and market share owing to knowledge and process sharing, low appropriation and coordination costs and increase efficiencies.

Nieto and Santamaria (2010) study shows that SMEs' collaboration with strategic resources leads to competitive advantage of rural SMEs. Similarly, the role of competitor orientation becomes more important in cases when the competitive intensity increases in the marketplace, as happened in Russia as part of the transition process (Dwairi, Bhuian, & Jurkus, 2007; Ma, Yao, & Xi, 2009). Misangyi *et al.,* (2006) reviewed the extent to which enterprise competitive advantage varies across business units, corporations and industries, finding overwhelming support in favour of the business unit which explained up to 44.2% of enterprise competitive advantage. The dynamic capabilities framework was implicitly built upon this finding. Jantunen *et al.,* (2012) study in a sample of 217 enterprises in the manufacturing and service sectors indicate that an enterprise's entrepreneurial orientation and its reconfiguring capabilities have an effect on its international competitive advantage. Jiao and Yu Cui (2011) found that entrepreneurial orientation and continuous organizational learning have positive effects on dynamic capabilities. Study by Ogot and Mungai (2012) on micro-enterprise furniture manufacturers in Kenya found that with restriction on MSEs to only the focus dimension in Porter's model, MSEs cannot become industry leaders from either a differentiation or a low-cost perspective. In relation to the discussion so far in this thesis, there remain distinct opportunities for small enterprise retailers and there are some clear advantages in self-employment if the MSEs deployed their capabilities contingent to the nature of the market dynamism.

Blankson and Omar (2003) in their study on capabilities alignment for competitiveness of SME retailers found that an inherent advantage SME retailer usually possesses is a rapport with their customers and the locality, which is difficult for large stores to achieve. Similarly, the flexibility of service to suit parochial needs and informality of retail service procedures can build up goodwill and especially attract the timid customer who is overawed by large sophisticated stores. An empirical analysis of 77 young IT software ventures in a study on, the impact of customer-orientation and competitor-orientation on organizational competitive advantage of new software ventures, has shown that customer-orientation and competitor-orientation are useful predictors of organizational competitive advantage (Mueller *et al.,* 2001).

A longitudinal study by Pelham and Wilson (1996) tested dynamism and competitive intensity for their influence on strategy and market-orientation, including customer-orientation, in small enterprises but didn’t find strong support for their hypotheses. Jaworski and Kohli, (2003) considered market turbulence, competitive intensity and technological turbulence to have a moderating effect, but they found the linkage between market-orientation and competitive advantage to be robust across varying levels of these factors. Studying small and medium-sized enterprises, Appiah-Adu (1998) suggest market dynamism and competitive intensity to have a direct influence on customer-orientation, but they do not find empirical support for their thesis. Gray and Mabey (2005) consider market environment as a relevant moderating variable for market-orientation influence on enterprise competitive advantage. However, their aim will to develop an extended market-orientation measure, they did not test their scales empirically.

Studies in the local enterprises have revealed that competition has led to various strategic responses. At the East African Breweries, competition has led to changes in the enterprise's direction and philosophies all aimed at serving the customer better in order to increase sales (Njau, 2000). Gathoga (2001) found that banks have adopted various strategies which include delivery of quality services at competitive prices in strategic locations. In a case study of one of the pharmaceutical enterprises in Kenya, Mukuria (2002) found that enterprises used unorthodox strategies to out-compete each other. Such strategies include evading licensing regulations, parallel importation, sell of generics, manufacturers, distributors and wholesalers selling directly to consumers thus undercutting retailers.

Mutugi, (2006) in her studies found that environmental forces affect the types of products developed, the nature of positioning and market segmentation strategies, the types of services offered and the choice of business to acquire or sell. That the changes have an influence on the staff, clients and the institution's portfolio and can create numerous pressures on institutions trying to maintain or achieve financial and operational self-sufficiency. If ignored, the changes in the environment can ultimately compromise an institution's operations, profitability and long-term viability.

In the case of Kenya Commercial Bank, Kiptugen, (2003) found the major environmental factors that have impacted on the industry and Kenya Commercial Bank in particular to be the economic decline, liberalization, legislative changes, increasing level of education and technological advancements. For Kenya Commercial Bank to remain a competitively viable force over the long term, it would have to pay more attention to its external environment. Isaboke, (2001) carried out an investigation on the strategic responses by major oil enterprises in Kenya to the threat of new entrants. He established that majority of the oil enterprises are using a combination of generic strategies including cost leadership, differentiation, market focus, segmentation, penetration and development of new markets. They also used competitive strategies such as use of convenient stores and restaurant franchises in up-market areas to compete against the new entrants.

Thiga, (2002) found that the enterprises in the aviation industry formed alliances and partnerships so as to globalize their route and earn a competitive edge. All the air lines surveyed had adapted strategies that helped them cope with the changed environmental conditions. Muriuki, (2005) observed that Jua Kali artisans had responded to challenges of increased competition by improving on strategic of their products and looking out for new markets. They managed to position their products in hardware and supermarket stores in a bid to increase their sales. The findings from the above studies revealed that enterprises respond differently to changes in the environment to ensure their survival. Research therefore has shown that the external environment plays a significant role in the growth and profitability of enterprises. This implies that small and medium-retail enterprises in Kenya are not isolated from the effects of the changes in the business environment.

2.5 Critique of Existing Literature Relevant to the Study

Majority of the empirical literature reviewed have been carried out in the context of large formalized enterprises that possess formal organizational structures and systems and more so service sector. The researcher was also unable find a study focusing on capabilities-context based response of small and medium enterprises facing competition from large enterprises for competitive advantage and survival. Despite the relevance of these works, several researchers have also recommended that more empirical research is needed to test the link between specific influence of dynamic capabilities and enterprise competitive advantage especially of competition and resource-strained enterprises (Grant, 2002).

From the literature analysis, dynamic capabilities factors don’t seem to have a direct influence on small and medium enterprise competitive advantage, hence, concerning the existing retail SMEs facing stiff competition from large retailers. The current research considered an enterprise strategy orientation as important mediator for the strength of the relationship between dynamic capabilities and competitive advantage of SMREs. The researcher thus identified research gaps which were filled by focusing on the role of dynamic capabilities in creating competitive advantages among small and medium enterprises in a developing country context, Kenya and the mediating effect of a business strategic orientation.

2.6 Research Gaps

The review identifies several gaps in the literature. Firstly, studies examining strategic orientations show mixed findings on the effects of strategic orientations on business performance. While some studies report that strategic orientations (such as, market and entrepreneurial orientations) being linked to new product performance (Atuahene-Gima & Ko, 2001) and overall competitive advantage which includes profitability, market response, market position value and new product success (González-Benito *et al.,* 2009), other studies find that market orientation has no effect of new product development (Li *et al.,* 2006) and that market orientation is not associated with return on assets (Zahra 2008). Secondly, the operationalization of competitive advantage especially in the context of the small and medium retail enterprises of developing countries is problematic in a number of studies (Hortinha *et al.,* 2011; Rhee *et al.,* 2010; Tajeddini 2010; Zahra 2008).These studies treat competitive advantage as a unidimensional construct which t ypically include indicators such as profitability, return on investment/assets, market share, sales growth and customer retention. Given that the effects of strategic orientations are likely to manifest through different aspects of competitive advantage (González-Benito *et al.,* 2009), the unidimensional performance measure might not fully capture the effects of strategic orientations (Cadogan, 2012). This approach may be partly responsible for the mixed findings on how strategic orientations affect competitive advantage. For instance, González-Benito *et al.,* (2009) find that market orientation has a positive effect on sales growth and customer satisfaction, while Jaakkola *et al.,* (2010) find that it has a weak and negative effect on market performance (measured as sales volume and market share). Therefore, the assumption that competitive advantages unidimensional may hide the true effects of strategic orientations on certain aspects of performance (Cadogan, 2012). This, in turn, may mislead retailers into making erroneous decisions and implementing the wrong strategic orientations.

Similarly, studies investigating three or more strategic orientations produce inconclusive findings about the effects of market, entrepreneurial and technology orientations on competitive advantage. While some researchers suggest market orientation is a strong indicator of competitive advantage (Kropp, *et al.,* 2006), others report that it has no effect on market performance (Laukkanen, *et al*., 2013). In regard to entrepreneurial orientation, some studies find that it affects brand and market performance (Laukkanen, *et al.,* 2013) whereas other studies find no effect on international performance (Ruokonen and Saarenketo, 2009). Finally, in terms of technology orientation, some report that it has no effect on innovation (Salavou, *et al.,* 2004), while others find that it only affects tech-based innovation and has no impact on market-based innovation (Zhou *et al.,* 2005). Therefore, it can be concluded that scholars have not reached a consensus on which and how multiple strategic orientations affect business performance.

Thirdly, although the majority of the studies assume that the nature of relationships between strategic orientations is complementary, only limited studies, namely González-Benito *et al.,* (2009), Mu and Di Benedetto (2011) and Nasution *et al.,* (2011), directly check this assumption by investigating the interaction effects of strategic orientations on business performance (competitive advantage). González-Benito *et al.,* (2009) examine the interaction effect of market and entrepreneurial orientations on competitive advantage and find that it positively affects profitability but not other aspects of performance. Similarly, Nasution *et al.,* (2011) investigate the interaction between market and entrepreneurial orientations and find that the interaction positively affects customer value but not innovation.

Mu and Di Benedetto (2011) is the only study that explore the interaction between four strategic orientations, namely market, technology, entrepreneurial and networking orientations and conclude that they have a synergistic effect on new product commercialization performance. Furthermore, Atuahene-Gima and Ko, (2001) and Hakala and Kohtamaki (2011) provide some indirect support for synergy of complementary resources by investigating different archetypes of enterprises. Atuahene-Gima and Ko (2001) observe that enterprises with high levels of market and entrepreneurial orientations achieve greater new product performance than those that only focus on a single strategic orientation or display low levels of both orientations. Similarly, Hakala and Kohtamaki (2011) find that enterprises with high levels of customer, entrepreneurial and technology orientations have greater competitive advantage and learning capability than those that focus solely on customer orientation.

However, most of the investigations on interaction effects are based on market and entrepreneurial orientations. This means that RBV's claim on the synergy between complementary resources remains largely untested in other combinations of strategic orientations. While studies generally postulate that environmental turbulence moderates the effects of strategic orientations on performance, empirical evidence is inconclusive. Di Benedetto (2011) finds that environmental dynamism positively moderates the effects of strategic orientations on new product commercialization performance. In contrast, Frishammar and Hörte (2007) observe no moderating effect of environmental turbulence on strategic orientations and new product development performance. In another study, Gao *et al.,* (2007) investigate the moderating effects of environmental turbulence dimensions separately and observe that demand uncertainty (that is, the extent to which customer preferences are stable) negatively moderates the effect of customer orientation on performance, technological turbulence (that is, the rate of technological changes in the industry) positively moderates the effect of technology orientation on performance and competitive intensity (that is, the degree of competition in the enterprise's industry) has no moderating effect.

Bhuian *et al.,* (2005) and Li, (2005) examine the moderating effect of environmental turbulence on the relationship between strategic orientations and business performance and between strategic orientations and network building respectively and determine that the findings are inconclusive. Hence, these contradictory findings indicate that whether and how environmental dynamism moderate the effect of strategic orientations on competitive advantage (performance) remains an open question.

Literature review provides evidence that much research needs to be conducted in relation to dynamic capability, strategy orientation and competitive advantage relationship. The main conceptual points derived from this review are that, notwithstanding the extensive research available on the topic of interest, especially in strategic management fields, there have been scarce studies within the field of strategic management that have looked at the relationship competitive advantage between SMEs in relation to other major retailers currently penetrating especially in the Kenyan retail market. In accordance with the developing nation status like Kenya, there has been little formal attention in terms of influence of high level competition given the high level infrastructural development and the resultant effect on the small and medium enterprises which have unequal resource power with the giant new retail entrants. A thorough examination was carried out that filled the literature gap both empirically and theoretically, particularly in developing countries, within the empirical setting of Kenya.

2.7 Summary

This chapter has examined the existing literature and research issues associated with SME competitive advantage, particularly the specific deployment of dynamic capabilities contingent to the SMRE strategic orientation. The history of strategic management shows that researchers have examined how business owners and operators can manage their business practices. Although most previous studies are based on developed countries and other sector not specifically SMRES, there are some significant ideas used as fundamental issues to determine which strategies produce success for Kenyan SMREs. A new model has been developed as part of this study, which is a hybrid of existing models and based on the key components, found to be relevant for this current study. This model is much more appropriate for Kenyan SMREs in the context of business environmental changes by adopting a comprehensive contingency-based research model including the three dynamic capabilities constructs (sensing, seizing and reconfiguration), the businesses strategic orientation (customer and competition) and competitive advantage relationships. The next chapter discusses the research methodology that was used in the analysis of the research objectives.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter focused on the research methodology including the research design, population, sampling methodology, data collection procedures and instruments, pilot test, data processing and analysis, operationalization and measurement of the variables. The study adopted both qualitative and quantitative approaches. Data analysis was undertaken by means of standardized statistical procedures.

3.2 Research Philosophy

A research philosophy reflects the researcher's perspective in interpreting of phenomena and depends on how he\she thinks about the development of knowledge. Consequently, it is a pattern of beliefs about the way in which the procedural steps of the research should be designed and how related data should be gathered and analyzed (Levin, 1988). Hence, it represents the vision that controls and affects all other related strategies and techniques.

Although related literature classified research according to perception of the world into several different philosophies (such as, realism, positivism, pragmatism and so on), positivism and phenomenology are seen as two major approaches in which research could be classified (Creswell 2003; Easterby-Smith *et al.,* 2002). Positivism is developed from existing theory within a logical manner through highly structured empirical testing of hypotheses (Winter, 1987). While positivism is more compatible with natural science and applied research, phenomenology represents another viewpoint. As a reaction to the positivism approach, phenomenology aims at illuminating the nature of a concerned phenomenon and to understand it through how it is perceived by the actors in its context. However, positivism has been criticized as an inappropriate philosophy within strategic or management research because of its structural tendency. According to Saunders *et al.,* (2007), the social word of business and management is far too complex to lend its self to theorizing by definite 'laws' in the same way as the physical sciences. On the other hand, phenomenological research considers humans as part of the phenomenon and focuses on understanding the mechanism in which meanings, beliefs and realities of the social world are formulated by members of a social group (Acumen Insights, 2009). The research methods under the phenomenological perception give considerable attention to focusing on the meaning within the qualitative approach rather than the measurement of social phenomena (Husseny & Husseny, 1997). Thus, research undertaken using the phenomenological methodology aims to understand intentional phenomena by interpreting meaning (Fay, 1996).

In determining, whether phenomenology or positivism was more suited to the present study depends on the nature of the research, its aims, in addition to the question(s) the researcher is seeking to answer as Saunders *et al.,* (2007) stated. In order to gain insight into the ways by which retailers in small and medium retail sector in Kenyan market consider how to contextually adapt for survival this research adopts the phenomenological approach, with the aim of establishing greater understanding of how different actors act in the environment and how practices are formulated.

3.3 Research Design

Research design is a plan of how the problem under investigation will be solved. The function of a research design is to ensure that the evidence obtained enables the study to answer the unambiguous research questions. The research used mixed research designs both exploratory and descriptive survey research design using both qualitative and quantitative approaches as recommended by Thietart *et al.,* (2001). A quantitative research refers to the systematic investigation of scientific or mathematical properties and their relationships. A qualitative approach which refers to the in-depth investigation that is more descriptive than numerical was also used in this research. Qualitative and quantitative techniques provide a tradeoff between breadth and depth and between generalizability and targeting specific populations. Each technique has its advantages and disadvantages. Quantitative research can provide rich details on the processes, which links the variables together (Brannen, 1992). This is also echoed by Moody, (2002) who states that the quantitative research method is used to collect numerical data or data in the form of numbers that can be analyzed by using statistical techniques.

Exploratory research is useful when little is known about the issue being investigated (Neuman 1997). For example, it can be used to explore relationships when the variables are unknown, develop new measurement instruments after conducting initial qualitative analysis, generalize qualitative findings, as well as refine or test a developing theory (Harrison and Reilly, 2011). Exploratory designs are often employed when "qualitative data are only an initial exploration to identify variables, constructs, taxonomies, or instruments for quantitative studies" (Harrison and Reilly, 2011).

On the other hand, Corbetta, (2003) says that a descriptive survey research design is a technique of gathering information by questioning those individuals who are the object of the research and belonging to a representative sample, through a standardized questioning procedure with the aim of studying relationships between variables. The descriptive survey strategy was chosen as the most appropriate method that would provide a broad overview of a sample representing retailing SMEs that allowed for generalization (Mugenda & Mugenda, 2003). It also ensured ease in understanding the insight and ideas about the problem under investigation. Additionally, descriptive survey design was flexible enough to provide opportunity for considering different aspects of a problem under study (Kothari, 2006). This design was considered appropriate for this study as Berg (2001) notes that, descriptive survey research is intended to produce statistical information about the aspects of the research issue that may interest policy-makers and businessmen.

The use of exploratory research in the first stage of the study is justified by the following reasons. First, given that the combination of dynamic capabilities, strategic orientations, competitive advantage relationships has scarcely been investigated in the literature before, exploratory research is needed to determine whether these strategic orientations really exist in small and medium retail enterprises. In addition, scholars argue that the relationship between dynamic capabilities and competitive advantage is likely to be shaped by mediators (Cadogan, 2012; Hakala, 2011), yet the literature has focused on a small set of factors thus far, such as, environmental turbulence. Therefore, exploratory research was necessary to uncover other relevant mediators. Furthermore, it helped understand the concept of strategic orientations from the retailer's point of view as well as the manifestation of strategic orientations in the small and medium retail enterprise's context. This also assisted in questionnaire development and refinement of the scales. Finally, exploratory research provides a much deeper understanding of the phenomenon under investigation and eventually leads to the development of more specific and focused questions for the quantitative phase (Harrison & Reilly, 2011).

Descriptive research differs from exploratory research in that it requires researchers to have a well-defined subject before conducting research to describe it accurately. Descriptive research was used to identify the characteristics of the subject and the data collected often quantitative (Collis & Hussey, 2003). The aim of descriptive research was to depict a clear picture of the subject (Neuman, 1997). To take advantage of the insights gained from exploratory research, this study employed descriptive research in the second phase of research to understand the extent to which strategic orientations are adopted given the market dynamism for competitive advantage of SMREs in Kenya.

3.4 Target Population

Zikmund, (2003) defines a population as being any complete group or body of people, or any collection of items under consideration for research purpose. A population is also viewed as the total collection of elements about which the researcher wishes to make some inferences (Cooper, & Schindler, 2008). Target population refers to the larger population to which the researcher ultimately would like to generalize the results of the study (Berg, 2001). It is the entire group of individuals, events or objects having a common observable characteristic. The study focused on all registered FMCG retail

SMEs in Thika Sub County currently 8,601 highlighted as * in Appendix 5. These enterprises were selected because they comprised 58.3 per cent of all the registered businesses in Thika Sub County. According to the Thika Sub County statistics, small enterprises were classified as those having 6 – 20 employees while medium retailers were those having 20 - 50 employees. These comprised the target population of interest for this study.

Table 3.1: Population Frame

Business description	Registered Number
Medium trader, shop, retail service	598
Small trader, shop or retail service	2,323
Other wholesale – retail traders, stores	5,681
Total	**8,601**

Source: Thika Sub- County (2013)

3.5 Sampling Frame

Sampling frame is a list of all items where a representative sample is drawn for the purpose of research. It has the property that the research and can identify every single element and include any in the sample (Saunders *et al.,* 2009). The sampling frame has all the small and medium-retail enterprises dealing with FMCG whose contact and location details are provided by the Thika Sub County, a total of 8,601 excluding retail enterprises dealing with other non-consumer goods as shown in Appendix 5.

3.6 Sample and Sampling Technique

Sample is a portion or part of the population of interest. Sampling is the part of statistical practice concerned with the selection of individual observations intended to yield some knowledge about a population of concern, especially for purposes of statistical inference (Palit, 2006)**.** Sampling also refers to the process of selecting some elements from a population to represent that population. Sampling provides a means of gaining information about the population without the need to examine the population in its entirety. Collis and Hussey, (2003) define the sampling unit as the case to which the variables under study and research problem refer and about which data is collected and analyzed.

In this research stratified, random sampling was used. Stratified sampling, a process by which the sample is constrained to include elements from each of the segments was used to categorize businesses into industrial sectors. Purposive sampling, a non-probability sample that conforms to certain criteria, particularly judgmental sampling, was used to select respondents from different retail enterprises sizes within Thika Sub County and its environments, whose workforce ranged from 5-50 employees. The SMREs were divided into four strata (see table 3.2), each business category forming a stratum (Cooper, & Schindler, 2008). There are several potential benefits of using stratified random sampling. First, dividing the population into distinct, independent strata enables the researchers to draw inferences about specific subgroups that may be lost in a more generalized random sample. Second, the method leads to more efficient statistical estimates (provided that the strata are selected based upon relevance to the criterion in question, instead of availability of the sample).

Additionally, it is sometimes the case that data is more readily available for individual, pre-existing strata within a population than for the overall population. In such cases, using a stratified sampling approach may be more convenient than aggregating data across groups. Finally, since each stratum was treated as an independent population, different sampling approaches can be applied to different strata, potentially enabling researchers to use the approach best suited (or most cost-effective) for each identified subgroup within the population. A stratified sampling approach is the most effective when three conditions are met. These are variability within strata are minimized, variability between strata are maximized and the variables upon which the population is stratified are strongly correlated with the desired dependent variable. In this study, the variable used for stratification was the enterprise size.

A sample size between 30 and 500 at a 5% confidence level is generally sufficient (Sekaran & Bougie, 2009). The level of significance is the statistical standard which is specified for rejecting the null hypothesis (Namusonge, 2010)**.** At this level of significance, the level of confidence is 95% which is also normally used for research in social science (Saunders *et al.,* 2007). The sample size determination formula for infinite populations is derived from Kothari, (2007). The target population size is 8,601 at a confidence level of 95%, p=0.58 since SMREs represents 58 per cent of all the registered enterprises in Thika Sub County and error (e) equals of + .05 was used.

According to Godden (2004)**,** the sample size for a population of 10,000 or more can be computed as per the formula below;

$$n = \frac{z^2pq}{e^2}$$

Where: n = minimum sample size

p = population proportion with a given characteristic or percentage picking a choice, expressed as a decimal (.58)

z = standard normal deviate at the 95% confidence level (1.96)

e = confidence interval, expressed as a decimal (.05 = + .05)

$$n = \frac{1.96^2 x58x.42}{.05^2}$$

n= 374

Godden, (2004), recommends that for a population less than 10,000, the population sample is computed as per the formula below;

New SS= n/ (1 + (n-1)/N)

Where; New SS = desired sample size when the population is less than 10,000

n = sample size (when) the population is greater than 10,000) = 374

N = estimate of the population size = 8601

$$\text{New SS} = \frac{374}{\frac{(1 + (374 - 1))}{8601}}$$

= **358**

Using the above formula, the sample size is 358 computed as shown in table 3.2 below;

Table 3.2: Sampling Distribution

Business description	Population per stratum	Sample Size
Medium trader, shop, retail service	598	26
Small trader, shop or retail service	2,323	96
Other wholesale – retail traders, stores	5,680	236
Total	**8,601**	**358**

3.7 Data Collection Instruments

A standardized questionnaire was the principal research instrument of data collection in which primary data were collected. The instrument used in this study was adapted and modified from previous research questionnaire of James, (2008) study on 'modeling competitive advantage in fast growth small-to-medium enterprises: contingent effects of environmental turbulence'. The utilization of previous studies' instruments of survey questionnaires not only assists in the reliability and validity of the instruments, but it also helps reduce the amount of work needed in developing and testing new instruments and thus manages to save time in conducting the research (Morgan & Hunt, 2004).

Kothari, (1993) states that a questionnaire gives the respondents' adequate time to give well thought-out answers. Sekaran and Bougier, (2009) state that questionnaires are efficient data collection mechanism when the researcher knows what is required and how to measure the variables of interest. The questionnaire comprised both open-ended and closed-ended questions. The open-ended questions were used to collect qualitative data and the closed-ended quantitative data. For the open-ended questions, the respondents were required to provide own answers; they are a means of getting the respondents views and opinions or description of experience, (Polonsky & Waller, 2009). For the closed-ended questions the respondents were required to select answers from among the list provided by the researcher; they helped the respondents and the researcher to make quick decisions to choose from among the several alternatives provided and to code the information easily for subsequent analysis. All questions using nominal, ordinal or likert or ratio scales are considered closed (Sekaran, 2003). The rationale for choosing a survey questionnaire in this study was its ability to provide a quick, inexpensive, efficient and accurate means of assessing information about a population (Zikmund, 2003). Babbie, (2004) believes that a survey questionnaire is one of the best methods available in collecting primary data to describe a large population without having to observe them individually. Bailey (1994) reports that a survey questionnaire has various advantages including time saving, since all the questionnaires can be sent simultaneously to all the respondents, there is greater assurance of anonymity as there is no interviewer present at the scene who can identify the respondent, standardized wording so that each respondent is exposed to exactly the same set of questions, eliminating interviewer bias since there is no interviewer involvement and greater accessibility as respondents can easily be reached despite being geographically dispersed.

Additionally, it provided qualitative data that would be designed around opinion statements as a means of exploring respondent's perceptions of a wide range of dynamic capabilities factors. Since the questionnaire was self-administrated, it allowed the researcher to interact with respondents and clarify the questions in different ways. Self-administration methods lead to higher levels of reporting (Bowling & Shah, (2005); Koponen, Mäki-Opas & Tolonen, (2013). It also allowed interaction between the researcher and the respondents and this brought the research issues beyond the researcher's expectations. In this study, the purpose of measuring instruments was to obtain primary data to test the hypothesized relationships shown in the hypothesized model and to subsequently identify the effect of strategic orientation on the relationship between dynamic capabilities and competitive advantage of SMREs.

The questionnaire was divided in to two parts. Part 1 of the questionnaire sought the demographic information relating to both the respondents and the SMREs in which they operate. This section requested information on gender, the number of years in the business by the respondent, position/title of respondent in the business and the level of education of respondent. Furthermore, information was solicited regarding the business itself, namely; the form of enterprise, branch/sector of enterprise, the number of full-time employees and the range of annual turnover. A nominal scale, which allows inferences on equality or difference, but nothing else, was used to classify the data (Collis & Hussey, 2003). Part 2 consisted of 50 statements (items) related to variables under study (see appendix 2).

Secondary data were conducted in order to identify appropriate dynamic capabilities and other factors that have an impact on the long-term competitive advantage of retail SMEs facing stiff competition from large retailers in Kenya. Therefore, several data searches were done at Jomo Kenyatta University library, using databases such as EBSCO, Emerald searches, Google searches, Yahoo searches, Ph.D thesis in the JKUAT library, strategic management and SMEs journals. The review also covered journal articles, online reports and government documents.

3.8 Data Collection Procedure

The questionnaire developed was self-administered. Three research assistants were recruited and trained so as to get quality results. They then were deployed to help reach the targeted SMRE owners/retailers randomly selected from Thika Sub County and directly to request them to participate in the study. The self-administration method ensured that clarity is made to the respondents and this enhanced the validity of the data collected. Since the details of their contacts have been availed by the Municipal Council of Thika, the target respondents were first contacted on the intention to drop and fill a questionnaire and the request to do so explained to them.

3.9 Pilot Test

To ascertain the validity and reliability of questionnaire, a pre-test and pilot survey was conducted. The purpose of pilot testing was to establish the accuracy and appropriateness of the research design and instrumentation and to provide proxy data for selection of a probability sample (Saunders *et al.,* 2009). Pilot study covered some of the 25 SMREs that were part of the target population but not covered in the sampled population. This represents 7% of the accessible population (sample size). This is generally recommended by social researchers such as Mugenda and Mugenda (2003) who observe that successful pilot study uses 1% to 10% of the actual sample size. Respondents were selected from Roysambu area of Kasarani Division since these respondents had similar characteristics as the sample under study. The researcher used simple random sampling, which according to Ordho (2003), ensures that each unit has an equal probability of being chosen and the random sample is the most representative of the entire population and least likely to result to bias. The results of the pilot study were used to make the required adjustments to the questionnaire so as to enhance the quality of the questionnaire.

3.9.1 Validity Tests

Validity is the degree to which a test measures what it purports to measure. Thietart *et al.,* (2001) define validity as the accuracy and meaningfulness of the inferences, which are based on the research results. It is the degree to which results obtained from the analysis of the data actually represent the phenomena under study. Sekaran (2003) contends that the validity of the questionnaire data depends on a crucial way on the ability and willingness of the respondents to provide the information requested. The type of validity considered was construct validity, which refer to the extent to which operationalization of a construct (that is; practical tests developed from a theory) do actually measure what the theory says they do. Construct validity evidence involves the empirical and theoretical support for the interpretation of the construct. The other validity was content validity which involved the degree to which the content of the test matches a content domain associated with the construct.

A test has content validity built into it by careful selection of which items to include (Anastasi & Urbina, 1997). Items are chosen so that they comply with the test specification which is drawn up through a thorough examination of the subject domain. Bailey (1994) notes that by using a panel of experts to review the test specifications and the selection of item, content validity of a test can be improved. This study used the expertise of research supervisors.

3.9.2 Reliability Tests

Reliability is concerned with precision and accuracy. For research to be reliable, it must demonstrate that respondents would yield the same results. To test the reliability of the research instruments in this study the researcher used Cronbach's alpha (α) which indicates the extent to which a set of test items can be treated as measuring a single latent variable (Cronbach, 1951). The recommended value of 0.7 was used. Cronbach's alpha is a general form of the Kunder-Richardson (K-R) 20 formulas used to access internal consistency of an instrument based on split-half reliabilities of data from all possible halves of the instrument. It reduces time required to compute a reliability coefficient in other methods.

The Kunder-Richardson (K-R) 20 is based on the following formula (Kothari, 2006).

$$\mathbf{KR_{20}} = \frac{(K)(S^2) - \sum s^2}{(S)(K-1)} \text{ ....equation}$$

KR_{20} Reliability coefficient of internal consistency

K Number of item used to measure the concept

S^2 Variance of all scores

s^2 Variance of individual items

3.9.3 Pilot Test Results

The main aim of the pilot test was to test the reliability of the research instruments, where reliability refers to the extent to which a measuring instrument contains variable errors, that is errors that appear inconsistently from the observation during any one measurement attempt or that vary each time a given unit is measured by the same instrument (Uma Sekaran, 2003). This study pilot tested the questionnaires on two areas along the Thika superhighway namely, Roysambu and Githurai.

A total of 25 questionnaires were obtained and reliability tests were conducted (Table 3.3). the results showed a Cronbach-alpha coefficient of greater than 0.70 , which is used to indicate a factor as reliable (Suhr & Shay, 2009). A summary of Cronbach-alphas for each factor is given in table 3.3 below.

Table 3.3: Reliability Test

Aggregated variable	No. of items	Cronbach
Y	12	0.755
X	38	0.719
M	10	0.889
N	16	0.861

3.10 Data Processing and Analysis

Data obtained from the questionnaire were initially coded into numerical representations. The guiding factors in data analysis in this study were based on whether the data are qualitative or quantitative. The qualitative data were subjected to content analysis. According to Polonsky and Waller (2009), content analysis is generally textual or visually based and focuses specifically on analyzing the frequency of particular words or phrases or images. The empirical analyses was divided into several categories, such as; descriptive statistical analysis, model fit statistics analysis and analysis for verifying the hypotheses. To conduct this analysis, this research carried out general statistical analysis which included f-test, t-test, frequency analysis, correlation analysis, ANOVA, model fit statistics analysis and finally justify the hypotheses.

3.10.1 Assumptions of the Study

Since the research utilized multiple regression equations, the data was first checked for violations of assumptions (normality, multicollinearity, homoscedasticity). The test of normality in this study was determined through the assessment of skewness and kurtosis. The test of homoscedasticity was conducted through levene test statistic (Kline, 2005).

Test of linearity was conducted using R^2 and adjusted R^2 as the most common way to determine linearity relationship (Hair *et al.,* 2010). Nonetheless, this assumption was rechecked again for the entire model using the diagnostics variance inflation factor (VIF) to test multicollinearity of the independent variables. Multicollinearity is present when the VIF for at least one of the independent variables is large. The rule of thumb is VIF > 10 is of concern or tolerance of 0.1 or less. The condition number (index) is another criterion for multicollinearity test in which a condition index of greater than 30 (CN > 30) for a dimension and at least two variance proportions indicate severe collinearity (Diamantopoulos & Winklhofer, 2001). Multiple criteria (such as; F-test, analysis of Variance (ANOVA, t-test) were used.

3.10.2 Testing of Hypotheses

Multiple regression analysis was used to test the relationship between dynamic capabilities (DCs) and competitive advantage (CA). The mediating effects of strategic orientation (SO) on the relationship between DCs and CA were tested based on a regression procedure specified by Baron and Kenny (1986). According to this procedure, it must be demonstrated that DCs (which is a predictor variable) is independently related to both SO (which is a mediator variable) and competitive advantage (which is the outcome variable). To prove the mediating effect, it must be demonstrated that the regression coefficient associated with the DCs-CA relationship shrinks or goes to zero when SO as a mediator is added to the equation. If the effect goes to zero when the mediator is added then full mediation has taken place, however, if the effect only shrinks in the presence of the mediator, then partial mediating has occurred (Baron & Kenny, 1986).

3.11 Operationalization and Measurement of Variables

Saunders *et al.,* (2009) state the need for operationalization of variables. Operationalised variables enable facts to be measured. However, the measurement of social relationships has always been a nagging and unresolved problem (Hail & Rist, 2009). The scales used in this study were either developed specifically for this study or adapted from existing scales to suit the context of the present study. The proposed model for the relationship between dynamic capabilities and competitive advantage mediated by strategic orientation included three main constructs but each with further sub-constructs as follows:

1. Dynamic Capabilities

All items captured the extent to which the SMREs particular capabilities constitute their enterprises' distinctive capabilities of responding to the market dynamism for competitive advantage and hence were able to successfully perform the respective activities during the last three years. Thus, the items capture the ability to perform the respective activity. The respondents were asked to rate the extent to which your dynamic capabilities of the enterprise to be descriptive of their influence on the enterprises competitive position in a likert scale where **1** indicates that you **strongly disagree** and **5** you **strongly agree**. The constructs were gauged by using three sub-dimensions, namely; sensing, seizing and configuration. More specifically:

a) Sensing Capabilities

Sensing capability comprises an enterprise's ability to recognize shifts in the environment that could impact on the enterprise's business (Teece, 2007). To capture sensing, the research applied two scales. The first scale captures recognition of opportunities and threats from the external environment and the second scale captures monitoring of the internal capability configuration. The scale of recognition consists of four items and was adopted from prior research (Lichtenthaler, 2009). As there was no scale available to measure capability monitoring, the researcher developed a set of items based on Schreyögg and Kliesch-Eberl, (2007) conceptual study. Finally, capability monitoring was measured with three items that capture activities relating to the internal fit of operational capabilities, the necessity of external-driven change and the monitoring of change processes as well as the results of changes in functional capabilities.

b) Seizing Capabilities

To seize opportunities, enterprises need to make interrelated strategic choices and investment decisions and make timely as well as competitive investment decisions (Barreto, 2010). To make meaningful decisions about how to address opportunities and threats, it is necessary that enterprises reach a new state of knowledge in order to understand the alternatives at hand and the interrelatedness of the factors involved. Thus, the ability to create and acquire new knowledge and to share it throughout the enterprise is very likely to be a necessary precondition for making informed decisions.

c) Reconfiguring Capabilities

This is reflected by the general ability to create new capabilities and the ability to integrate newly created or acquired capabilities independent of the specific conditions (Lavie, 2006). It was measured with two scales. To measure capability creation, a four-item scale was adapted from prior research that covers the different facets of the internal development of new capabilities (Prieto *et al.,* 2009). To measure capability integration, a three-item scale indicating how good enterprises are at integrating new capabilities into their existing capability configuration were applied. Two items were adopted from prior studies and the third was a newly developed one (Pavlou & El Sawy, 2006).

2. Strategic Orientation

a) Customer-Orientation

This was measured using a four-item scale. Based on the scale developed by Narver and Slater (1990), the research additionally used two items on information sharing behaviour between customer and seller.

b) Competitor-Orientation

This has traditionally been used as a sub-dimension of the market-orientation construct, developed by Narver and Slater (1990). Comprising four items, this scale centres on an enterprise understands of short-term strengths and weaknesses and long-term capabilities and strategies of key current and potential competitors. Recent studies suggest the application of this dimension as an independent construct (Noble *et al.,* 2002). It was thus measured using a five-item scale.

3. Competitive Advantage

Barney (1991) defines competitive advantage as the implementation of a strategy that facilitates the reduction of cost, the exploitation of market opportunities and/or neutralization of competitive threats (Newbert, 2008). Competitive advantages in this study are measured as the implementation of strategies of cost-leadership, quality and niche. Constructs for these three strategies are developed based on references from Wang and Ahmed (2007). Specifically, respondents were asked to assess the actual implementation of competitive strategies of cost leadership, quality and market responsiveness (customers and competitors) in their enterprises on a 5-point Likert scale (1 = strongly disagree to 5 = strongly agree). Cost strategy is measured through sub-scales: emphasizing cost reductions via value chain process innovation, business operation system, through investment in efficient machinery and by improving productivity and the operations of employees.

Improved quality was reflected by focusing on product/service quality as perceived by the niche customers, strict quality control, meeting customer needs and addressing their product requirements through pitting in place feedback mechanisms. Market responsiveness (customers and competitors) strategy was measured as the degree to which an enterprise strives, to introduce new products first, stresses production process innovation and engages in novel strategic. The items were measured on a five point scale and coded on a scale of 5 (very good) to 1 (very poor). As with the constructs for capabilities above, all sub-scales for each strategy are pooled into a corresponding single strategy (Noble *et al.,* 2002).

4. Demographic Information

The respondents were requested to provide information on, the number of years in the business by the respondent, position/title of respondent in the business and education level of respondent, the form of enterprise, number of full-time employees and the range of annual turnover. A nominal scale, which allows inferences on equality or difference, but nothing else, was used to classify the data (Collis & Hussey, 2003).

3.12 Model Specification

To derive an equation as a basis for estimation and to obtain a measure of the proportion of variance in the dependent variable accounting for or ‘explained by independent and mediating variables’, appropriate multiple regression equations were modelled. The model presents a simplified approach of the linkage between hypothesized dynamic capabilities as mediated by strategy orientation for competitive advantages of retail SMEs in Kenya. The reduced model of the direct relationship between the hypothesized dynamic capabilities and competitive advantage was based on the function; $Y = f(X)$

Hence the regression equation for testing hypothesis 1 was as follows:

$Y = \beta 0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + ȩ$---model (i)

Where; Y= competitive advantage

$\beta 0$=constant

βi is the coefficient for Xi (i=1, 2,3)

Independent variables are:

X_1– sensing capabilities,

X_2– seizing capabilities,

X_3– reconfiguration capabilities,

ȩ = error term

The reduced model of the indirect relationship between the hypothesized sensing capabilities and mediating variables was based on the function: $Y = f(X_{1,} M, N)$

The general multiple regression model for testing hypothesis 2 was:

$Y = \beta 0 + \beta_4 X_1 + \beta_5 M + \beta_6 N + ȩ$---model (ii)

Where;

M = competition orientation

N = customer orientation

The reduced model of the indirect relationship between the hypothesized seizing capabilities and mediating variables was based on the function: $Y = f(X_{2,} M, N)$

The general multiple regression model for testing hypothesis 3 was:

$Y = \beta 0 + \beta_7 X_2 + \beta_8 M + \beta_9 N + ȩ$ ---model (iii)

The reduced model of the indirect relationship between the hypothesized reconfiguration capabilities and mediating variables was based on the function: $Y = f(X_{3,} M, N)$

The general multiple regression model for testing hypothesis 4 was:

$Y = \beta 0 + \beta_{10} X_3 + \beta_{11} M + \beta_{12} N + ȩ$--model (iv)

The full model of the indirect relationship between the hypothesized dynamic capabilities and mediating variables was based on the function: $Y = f(X_1, X_2, X_3, M, N)$

The general multiple regression model for testing hypothesis 5 was:

$Y = \beta 0 + \beta_{13}X_1 + \beta_{14}X_2 + \beta_{15}X_{3+}\beta_{16}M + \beta_{17}N + ȩ$ --------------------------------------model (v)

3.13 Summary

This chapter has discussed the research design and methodology used in this research. More specifically it outlined the research instruments and procedures used for data collection and all the relevant procedures of data preparation. The chapter explained and rationalized the statistical techniques that were used for data analysis. The data collected from the survey questionnaires were submitted all the statistical procedures explained in this chapter. The goal was to first ensure the validity, reliability and normality of the data and the measurement dimensions and constructs and then examine the interrelationships between the variables proposed in the hypotheses with full-mediated-multiple-regression-model testing. This provided quantified evidentiary results to determine the influence of dynamic capabilities, strategic orientation relationship on SMREs competitive advantage. The next chapter provides a detailed explanation of the results from each stage of the data analysis and end with the findings of the data analysis in relation to the hypotheses guiding this thesis.

CHAPTER FOUR

4.0 RESEARCH FINDINGS AND DISCUSSIONS

4.1 Introduction

The general objective was to determine the mediating effect of strategic orientation on relationship between dynamic capabilities and competitive advantage of small and medium-retail enterprises in Kenya. To address this objective, this chapter provides a detailed descriptive and inferences on the data analysis and the key research findings and discussions, clearly outlining how each of the hypothesized as stated in chapter one has been tested.

4.2 Background Information

4.2.1 Retail Enterprises Response Rate

This study targeted 358 small and medium-retail enterprises within Thika Sub County and the environment along Thika superhighway as specified in chapter three. After coding and checking for accuracy in the data, 300 questionnaires were found useful for the study. This gave a response rate of 83%. Arora (1996) argues that a questionnaire that produces above 75% response rate has done extremely well. According to Mugenda and Mugenda (2003), a response rate of 50% or more is adequate. Babbie (2004) also says that response rate of 50% is acceptable to analyze and publish, 60% is good and 70% is very good.

Table 4.1: Retail Enterprises Response Rate

	Respondents
Questionnaires distributed	358
Usable questionnaires received	300
Response rate	83%

4.2.2 Size of the Study Sample

The size of the study sample was measured using the number of full-time employees working in the enterprise. The findings of the study revealed that regarding the number of full-time employees, the majority of the retail enterprises employ between 5 and 20 employees (67.6%), followed by those employing between 20 and 50 (32.1%) as shown in (Table 4.2).

Table 4.2: Size of the Study Sample

Enterprise categorization	Number of full time employees	Frequency	Percentage
Small retail enterprises	6 – 20	188	67.6
Medium retail enterprises	20 -50	90	32.1

4.2.3 Gender of the SMRE Respondents

Figure 4.1 below shows that the majority of respondents in the present study were males (60.1%) while females only controlled 39.9% of the small and medium-retail enterprises implying that majority of the SMREs are managed or owned by males.

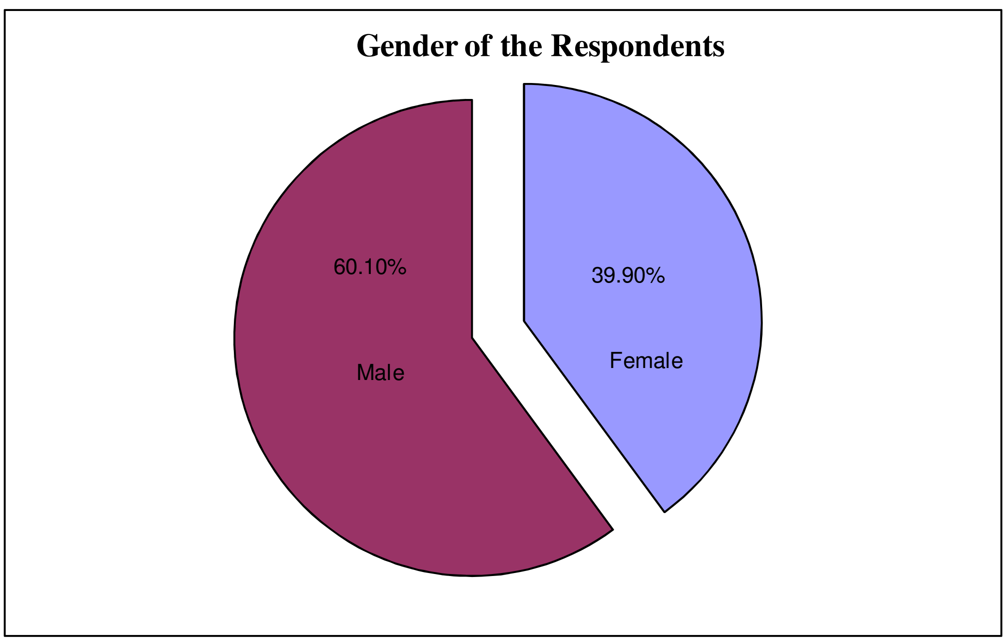


Figure 4.1: Gender of the SMREs Respondents/Owners

According to Ellis *et al.,* (2007), in spite of women being the major actors in the Kenya's economy and notably in microenterprises and informal sector, men dominate in the small and medium enterprises citing the ratio to be 60.1%: 39.9% as shown in figure 4.1. Perhaps the gender disparity may have an implication on the level of competitive advantage in the SMREs. A recent baseline survey of small businesses shows that female ownership, informality and sole proprietorship have negative effects on the ability to generate revenue (Ogot & Mungai, 2012).

4.2.4 Educational Level of the Respondents

Education level profile of respondents in figure 4.2 was as follows; 0.7% possessed a KCPE certificate, 22.4% held a KCSE certificate, 10.4% respondents held a college certificate, 43.3% were diploma holders, 23.2% were university graduates while 1.3% were postgraduates. 10.7% respondents did not report their level of education. From the results, it can be observed that most of the respondents understood the contents of the questionnaires and their responses can be taken seriously. This concurs with the study by Wanjohi and Mugure (2008) that shows that most of those running SMEs in this sector have at least attained college level education. Similarly, Lussier (2008) also summarized that the entrepreneurs with higher education level and experiences have greater chances of succeeding than the people without education and experiences as quoted in Rose *et al.,* (2010).

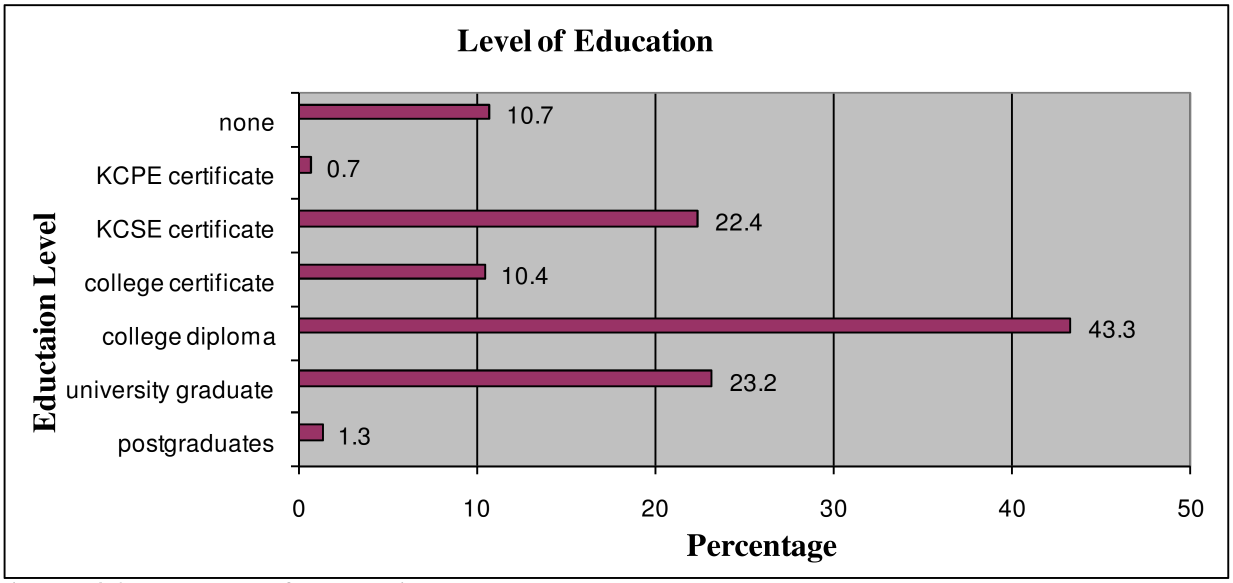


Figure 4.2: Level of Education

4.2.5 Age of the SMRE's

In figure 4.3, overwhelming majority of respondents (61.6%) had their enterprises been in operation for up to ten years while only (48.4%) of the respondents had been in operation for more than 10 years. Regarding the form of enterprise, the great majority (40.1%) were sole proprietorship followed by private enterprises (24.5%) respectively.

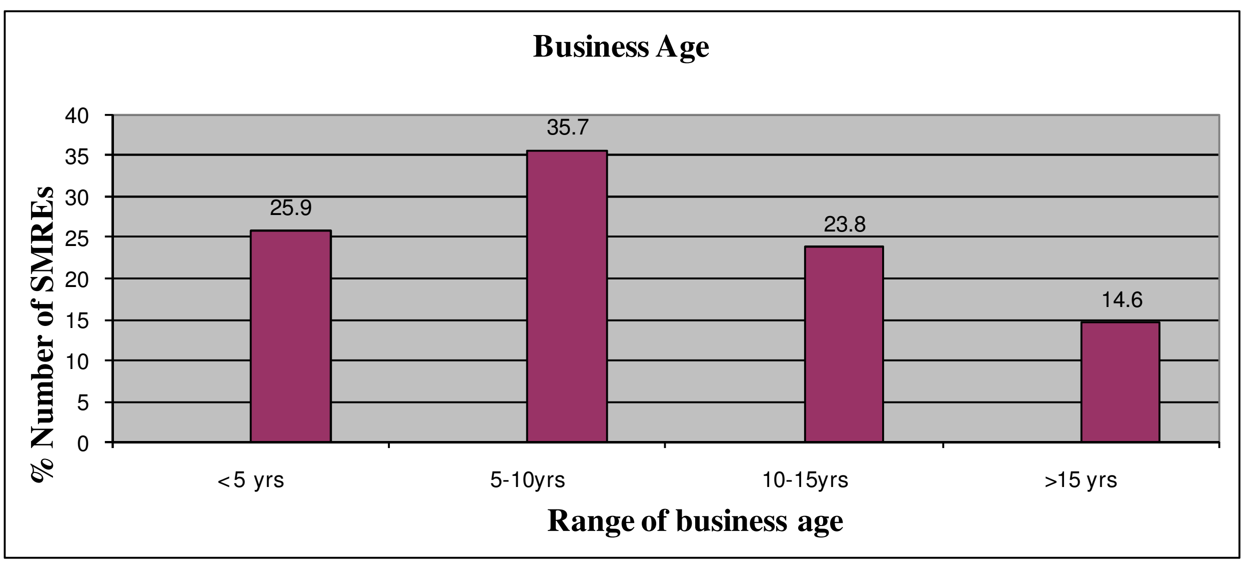


Figure 4.3: Business Age

Study findings support consideration of age of an enterprise as a factor that may affect the enterprise survival and growth and/or enterprise decline and death. The liability of newness that makes new SMEs face a greater risk of survival than older enterprises is that new enterprises do not have the experience, access, links, reputation or the legitimacy of the older enterprises, leading to limited access to external resources (Amyx, 2005). McKee *et al.,* (2009) argues that enterprise size, as well as growth rates, are inversely related to the probability of closure.

4.2.6 Style of Management and Ownership Status

In terms of management, an overwhelming 71.4% of the enterprises were solely managed by the owners, 12.2% by the board of directors while only 14.3% were managed by a chain of branch retailers and these were mainly the large chain retailers. Additionally, 97.8% of the SMREs were locally owned only 2.2% had foreign ownership.

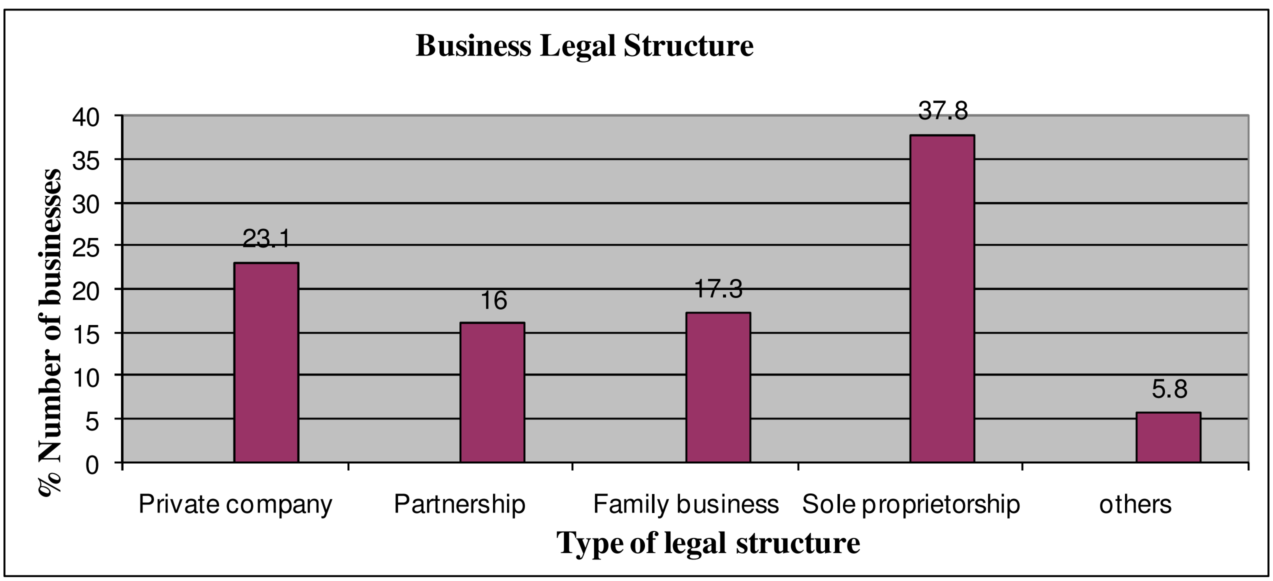


Figure 4.4: Business Legal Structure

These findings concur with Amyx (2005) who argues that individual businessmen play a key role in determining the vision of the enterprise and that SME owner may be categorized as Aggressive, Strategic, Adaptive and Imitative (ASAI), which is indicative of their divergent strategic orientations leading to competitive advantage of an enterprise.

4.3 Descriptive Analysis of Independent Variables

The purpose of the study was to investigate the mediating effect of strategic orientation on the relationship between dynamic capabilities and competitive advantage of SMREs in Kenya. The researcher analyzed descriptive statistics for the following observed variables; sensing capabilities, seizing capabilities, reconfiguration capabilities, customer-orientation, competition orientation and perceived competitive advantage. The 5-point Likert scale response categories used in this study can be observed in Table 4.3. This scale works from left to right where the left end of the scale is smaller, more negative than the right. There are two extreme values, that is, far left which signifies strongly disagree; and far right which symbolizes strongly agree. Meanwhile, the middle answer category (number 3 on the Likert scale) represents neutral which means neither agree nor disagree (Velde, Jansen & Anderson 2004).

Table 4.3: 5-point Likert Scale Responses Categories

Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	2	3	4	5

4.3.1 Sensing Capabilities and Competitive Advantage

The Table 4.4 shows the business enterprises respondents whose responses were analyzed through mean and standard deviation. The respondents agreed that they observe best practices of product and service delivery to their customers; they are very slow to detect fundamental shifts in their industry; they regularly check the quality of their operational capabilities in comparison with their competitors in the same industry; they frequently review the likely effect of changes in their business environment on customers; they quickly understand new opportunities to serve their customers better than their competitors; they pay a great attention on monitoring the change of operational capabilities, after changing existing capabilities or integrating new capabilities, they pay a great attention on monitoring the efficiency of their new processes; they are very good in observing and anticipating market and customer trends; they use established processes to identify target market segments, changing customer needs and customer innovation and finally they have not put feedback measures to assess customer satisfaction systematically and frequently. Each of the factors had a mean score of 4.2200, 4.0400, 4.0133, 3.9867, 3.9595, 3.9467, 3.9400, 3.9329, 3.9000, 3.6395 and 3.6107 respectively. The respondents were neutral on whether they rarely attend business forums that discusses the changing trends within our business operational environment which had a mean score of 3.0470.

Table 4.4: Sensing capabilities and competitive advantage

Sensing capabilities	N	Min	Max	Mean	S.D
We are very slow to detect fundamental shifts in our industry (such as; competition, new entrants, new customers trends).	300	1.00	5.00	4.0400	.98226
We very frequently review the likely effect of changes in our business environment on customers	300	1.00	5.00	3.9867	.74173
We quickly understand new opportunities to serve our customers better than our competitors.	300	1.00	5.00	3.9467	.83374
We are very good in observing and anticipating market and customer trends.	300	1.00	5.00	3.9000	.88803
We regularly check the quality of our operational capabilities in comparison with competition.	300	1.00	5.00	3.9400	.79622
We regularly check the quality of our operational capabilities in comparison with our competitors in the same industry	300	1.00	5.00	4.0133	.84334
We pay a great attention on monitoring the change of operational capabilities	298	1.00	5.00	3.9329	.80257

After changing existing capabilities or integrating new capabilities, we pay a great attention on monitoring the efficiency of our new processes.	296	1.00	5.00	3.9595	.81548
We have NOT put feedback measures to assess customer satisfaction systematically and frequently	298	1.00	5.00	3.6107	1.19521
We use established processes to identify target market segments, changing customer needs and customer innovation	294	1.00	5.00	3.6395	.96476
We observe best practices of product and service delivery to our customers	300	1.00	5.00	4.2200	.72232
We rarely attend business forums that discusses the changing trends within our business operational environment	298	1.00	5.00	3.0470	1.20996

This study concurs with Neu and Brown, (2005) who indicated that the increasing complexity of customer needs drive enterprises to identify the need for change. The complexity of customer needs involves customers who increasingly differ on how they want to satisfy their needs. The study found the major drivers for sensing opportunities and the need for change are decreasing profitability, increasing complexity of customer needs which is, however, limited by managerial cognition for sensing opportunities. It is through sensing that the organization becomes aware of changes in the external/internal environments. However, sensing opportunities in the environment are of little value if that information is not acted upon. Senior management must be able to make decisions and set strategy based upon information gleaned from the environment. Sensing capabilities indicator was displayed through insights involving responding to defects, effective feedback systems form customers, acquisition of new learning, adopting of flexible structures the facilitates quick response to competitors actions and competitors' actions observation.

4.3.2 Seizing Capabilities and Competitive Advantage

The study established that the relationship between seizing capabilities and competitive advantage of small and medium retailing enterprises in Kenya. The respondents agreed that they respond to defects pointed out by employees; they change their practices when customer feedback gives them a reason to change; Within their business, they have the capabilities successfully to learn new things; they have the capabilities to effectively develop new knowledge or insights that have the potential to influence their competitive position; their flexible structure makes them respond to market dynamics quickly before their competitors do; they frequently acquire knowledge about competitive and market trends from external sources; they are able to identify and acquire external knowledge (such as; market, customer trends) very quickly; their employees have the capabilities to produce many novel and useful ideas. Each of the factors had a mean score of 4.2349, 4.1000, 3.9329, 3.8333, 3.7533, 3.7095, 3.6333 and 3.5034 respectively.

The respondents were neutral whether the existing information (such as; market or environment) is readily available to their business enterprise; they have a data bank for all their customers with an intention of finding solutions for their customers within a short period of time; they have no formal systems of circulating new information about the market trends in form of documents (such as, reports, newsletters) to update everyone within the business; they employees rarely attend business forums to learn about new market/customer trends, business strategies which we quickly implement they something important happens (market or strategy development), the whole business enterprise knows about it but after a longer period. Each of the factors had a mean score of 3.3800, 3.0135, 3.0000, 2.9533 and 2.6980 respectively.

Table 4.5: Seizing capabilities and Competitive Advantage

Seizing capabilities	N	Min	Max	Mean	S.D
We frequently acquire knowledge about competitive and market trends from external sources	296	1.00	5.00	3.7095	.91290
We are able to identify and acquire external knowledge (such as; market, customer trends) very quickly	300	1.00	5.00	3.6333	.83076
Our employees rarely attend business forums to learn about new market/customer trends, business strategies which we quickly implement.	300	1.00	5.00	2.9533	1.21145
Existing information (such as; market or environment) is readily available to our business enterprise	300	1.00	5.00	3.3800	1.04059
We have formal no systems of circulating new information about the market trends in form of documents (e.g., reports, newsletters) to update everyone within the business	298	1.00	5.00	3.0000	1.23025
When something important happens (market or strategy development), the whole business enterprise knows about it but after a longer period	298	1.00	5.00	2.6980	1.93721
Our employees have the capabilities to produce many novel and useful ideas	298	1.00	5.00	3.5034	.89763
Within this business, we have the capabilities successfully to learn new things.	298	1.00	5.00	3.9329	.78555
We have the capabilities to effectively develop new knowledge or insights that have the potential to influence our competitive position	300	1.00	5.00	3.8333	.83076

Our flexible structure makes us respond to market dynamics quickly before our competitors do	300	1.00	5.00	3.7533	.89695
We have a data bank for all our customers with an intention of finding solutions for our customers within a short period of time	296	1.00	5.00	3.0135	1.16634
We respond to defects pointed out by employees	298	1.00	5.00	4.2349	.65129
We change our practices when customer feedback gives us a reason to change.	300	1.00	5.00	4.1000	.78364

This study results are similar to Mintzberg and Waters, 1985 who indicated that seizing opportunities is described as the formulation of deliberate (planned) strategies as strategic response, rather than emergent ones. Also (Mintzberg, 1973, 1978) indicated that seizing opportunities refers to the formulation of a strategic response. The decision to seize the opportunities is associated with concrete planning. Decision makers tend to be more planners than entrepreneurs. Seizing opportunities is, therefore, considered as formulating deliberate (planned) strategies.

4.3.3 Reconfiguration Capabilities and Competitive Advantage

The study sought to establish the extent of agreement of the respondents with various factors on reconfiguration capabilities of small and medium retailing enterprises in Kenya. The respondents agreed that show boldness in their efforts to maximize the probability of exploiting opportunities than their competitors and substantially changed ways of achieving their targets and objectives. Each had a mean score of 3.7450 and 3.5238 respectively. The respondents were neutral on the following factors: identified valuable capability elements to connect and combine them in new ways; implemented new kinds of management methods that are currently more responsive within their business processes; transformed existing resources into new capabilities (such as; new product offering, new services delivery systems); changed the strategic strategies; integrated new externally sourced capabilities and combined them with existing capabilities into 'novel' combinations; substantially renewed of our business processes;

introduced new perceptible changes that lie outside the existing features of existing capabilities and effectively recombined existing capabilities into 'novel' combinations. Each factor had a mean score of 3.3986, 3.3960, 3.3446, 3.2500, 3.1986, 3.1554, 3.1007 and 2.9048 respectively.

Table 4.6: Reconfiguration Capabilities and Competitive Advantage

Reconfiguration capabilities	N	Min	Max	Mean	S.D
Transformed existing resources into new capabilities (such as; new product offering, new services delivery systems).	296	1.00	5.00	3.3986	.94574
Introduced new perceptible changes that lie outside the existing features of existing capabilities.	298	1.00	5.00	3.1007	.97776
Identified valuable capability elements to connect and combine them in new ways.	296	1.00	5.00	3.3446	.94554
Effectively recombined existing capabilities into 'novel' combinations	294	1.00	5.00	2.9048	.98157
Changed the strategic strategies	296	1.00	5.00	3.2500	1.15396
Integrated new externally sourced capabilities and combined them with existing capabilities into 'novel' combinations.	292	1.00	5.00	3.1986	1.08672
Substantially renewed of our business processes	296	1.00	5.00	3.1554	1.01494
Substantially changed ways of achieving our targets and objectives	294	1.00	5.00	3.5238	.99542
Implemented new kinds of management methods that are currently more responsive within our business processes	298	1.00	5.00	3.3960	1.08938
Boldness in our efforts to maximize the probability of exploiting opportunities than our competitors	298	1.00	5.00	3.7450	1.01445

This study results are similar to one of Teece, 2007 who said that reconfiguring capability means matching and managing the bilateral dependence between service strategy and organizational design to achieve strategic fit. A strategic fit in this case refers to the congruence between the aspects of a given service strategy (including strategic market offering) and the aspects of a given organizational design. Strategic fit leads to coalescence, where service strategy and organizational factors are internally consistent, complementary and mutually reinforcing. It enables enterprises to achieve above-average enterprises performance. From a reconfiguration capability perspective, Lavie, 2006 observes enterprises systematically reconfigure their operating routines, resources and technologies to improve innovativeness. Enterprises reconfigure technologies and different knowledge resources to find the right inventive combination. More specifically, innovation is a function of effective recombinant search that is motivated by competitive networking positions, flexible organizational structures and intellectual human capital.

The study concurs with Lavie (2006) who observes the impact of business change on the mechanisms undertaken to reconfigure the enterprise's current capability. He observes the following three mechanisms for capability reconfiguration: Capability substitution is implemented through acquiring external sources of knowledge to replace obsolete capabilities. On the other hand, capability evolution depends on the enterprise's internal sources of knowledge and the extent to which it views potentially new interrelationships among its existing domains of knowledge. It represents the exploitative aspect of organizational learning because evolution focuses on extending existing capabilities (March, 1991). Capability transformation encompasses a dynamic learning process that facilitates business renewal by injecting and incorporating new domains of knowledge to the existing organizational system. Similar reconfiguration capabilities are rarely exhibited by small and medium retail enterprises in Kenya.

4.3.4 Dynamic Capabilities, Strategic orientation and Competitive Advantage

a) Dynamic Capabilities, Competitors' Orientation and Competitive Advantage

On factors related to competitors' orientation, the respondents agreed that they rapidly respond to competitive actions that threaten them; their strategy for competitive advantage is based on their understanding of competitors actions; they regularly share information concerning latest competitors strategies; they regularly meet to discusses competitors' strengths and strategies; they regularly visit our current and prospective competitors to learn their business tactics informally; anything that their competitor can offer, we can match readily and all of their business functions are integrated in serving the needs of our specific target markets not targeted by their competitors. Each factor had a mean score of 4.0467, 3.8867, 3.8533, 3.7431, 3.7200, 3.6733 and 3.6040 respectively. The respondents were neutral on whether they are very fast to introduce new products and services to the marketplace before our competitors do which had a mean score of 3.4933

Table 4.7: Dynamic Capabilities, Strategic orientation and Competitive Advantage

Competitors orientation	N	Min	Max	Mean	S.D
All of our business functions are integrated in serving the needs of our specific target markets not targeted by our competitors	298	1.00	5.00	3.6040	1.01887
Anything that our competitor can offer, we can match readily	300	1.00	5.00	3.6733	1.12624
Our strategy for competitive advantage is based on our understanding of competitors actions	300	1.00	5.00	3.8867	.93073
We are very fast to introduce new products and services to the marketplace before our competitors do	300	1.00	5.00	3.4933	.89553
We rapidly respond to competitive actions that threaten us	300	1.00	5.00	4.0467	.83816
We regularly meet to discusses competitors' strengths and strategies	288	1.00	5.00	3.7431	1.06270
We regularly share information concerning latest competitors strategies	300	1.00	5.00	3.8533	.95106

We regularly visit our current and prospective competitors to learn their business tactics informally	300	1.00	5.00	3.7200	1.11800

b) Dynamic Capabilities, Customer's Orientation and Competitive Advantage

The respondents agreed on all the factors on customer orientation that the study examined. The respondents agreed that their business objectives are driven primarily by customer satisfaction; their strategies are driven by beliefs about how we can create greater value for customers; they constantly monitor our level of commitment and orientation to serving customers needs; they frequently obtain feedback from our customers about their level of satisfaction with our products/services they target specific customers where we have an opportunity for competitive advantage; the new products or services they constantly introduce are based on the constant feedback they obtain from their customers depending on their changing needs; they measure customer satisfaction systematically and frequently through their feedback systems and they are witnessing demand for their products and services from customers who never bought them before. The above factors ranged from a mean score of 4.3133 to 3.7667 respectively.

Table 4.8: Dynamic Capabilities, Customer's Orientation and Competitive Advantage

Customer orientation	N	Min	Max	Mean	S.D
Our business objectives are driven primarily by customer satisfaction	300	1.00	5.00	4.3133	.64648
Our strategies are driven by beliefs about how we can create greater value for customers	298	1.00	5.00	4.2081	.73774
The new products or services we constantly introduce are based on the constant feedback we obtain from our customers depending on their changing needs	300	1.00	5.00	3.9400	.85318
We are witnessing demand for our products and services from customers who never bought them	300	1.00	5.00	3.7667	.89305

before.					
We constantly monitor our level of commitment and orientation to serving customers needs	296	1.00	5.00	4.0541	.67797
We frequently obtain feedback from our customers about their level of satisfaction with our products/services	298	1.00	5.00	4.0336	.71107
We measure customer satisfaction systematically and frequently through our feedback systems	300	1.00	5.00	3.8600	.81948
We target specific customers where we have an opportunity for competitive advantage	300	1.00	5.00	3.9867	.90477

The study concurs with O'Reilly and Tushman, (2008) who indicated that strategic fit among activities is fundamental to sustainability of competitive advantage. But outdated fit might make it more difficult to change strategy and to move into a different strategic fit or internal congruence between service strategy and organizational design.

4.3.5 Competitive advantage

The study sought to know the extent on which the respondents agreed on various factors on competitive advantage among the small and medial retails enterprises in Kenya. The respondents agreed that meeting customer needs and delivering value to their customers is their primary goal; strict quality control through strict sourcing procedures; customer satisfaction; they respond quickly to the first signals of new business opportunities in the market; addressing their product requirements through putting in place feedback mechanisms; level of cost reductions through improved/more efficient procedures of service delivery; niche of customer that have positively commended their product/service; strong network with their customers hence greatly reduces advertising costs thus low price offerings regularly; giving priority to investment in efficient machinery, systems, structures; time necessary to introduce new generation of products as demanded by our customers; percentage of range products/services of total turnover and degree of our product differentiation is higher than our competitors to our niche customers. The above factors ranged from a mean score of 3.5608 to 4.2727 respectively.

Furthermore the respondents were neutral on whether higher market share relative to other competitors in the same industry; often introduce new products first than their competitors and new product/service introduction rate is higher than their competitors. Each had a mean score of 3.4604, 3.4082 and 3.3972 respectively.

Table 4.9: Competitive advantage

Competitive advantage	N	Min	Max	Mean	S.D
Percentage of range products/services of total turnover	288	2.00	5.00	3.5764	.78071
Time necessary to introduce new generation of products as demanded by our customers	292	2.00	5.00	3.6644	.76363
Customer satisfaction	292	2.00	5.00	4.0822	.68990
Higher market share relative to other competitors in the same industry	278	2.00	5.00	3.4604	.85352
Level of cost reductions through improved/more efficient procedures of service delivery	294	2.00	5.00	3.7959	.75796
Giving priority to investment in efficient machinery, systems, structures	294	1.00	5.00	3.7143	.83584
Strong network with our customers hence greatly reduces advertising costs thus low price offerings regularly	296	1.00	5.00	3.7703	.88905
Niche of customer that have positively commended our on product/service	296	1.00	5.00	3.7945	.77831
Strict quality control through strict sourcing procedures	296	2.00	5.00	4.1351	.86228
Meeting customer needs and delivering value to our customers is our primary goal	286	1.00	5.00	4.2727	.72366
Addressing their product requirements through putting in place feedback mechanisms	290	1.00	5.00	3.9034	.81073
Often introduce new products first than our	294	1.00	5.00	3.4082	.94908

competitors					
New product/service introduction rate is higher than our competitors	282	1.00	5.00	3.3972	.90142
Degree of our product differentiation is higher than our competitors to our niche customers	296	1.00	5.00	3.5608	.90521
We respond quickly to the first signals of new business opportunities in the market.	296	1.00	5.00	3.9257	.84990

This study is similar to Teece and Pisano (1994) and Teece *et al.,* (1997) who asserted that in a dynamic environment an enterprise's competitive advantage rests on the enterprise's internal processes and routines that enable it to renew and change its stock of organizational capabilities, thereby allowing it to deliver a constant stream of new and innovative products and services to customers.

4.3.6 Aggregate of the Independent Variables

Table 4.10 shows the aggregated responses which were analyzed through mean and standard deviation. All the five variables considered to be influencing competitive advantage of SMREs (sensing, seizing and reconfiguration capabilities, competition and customer orientations) were considered as the constructs of the independent variable of this study which was competitive advantage. Concerning dynamic capabilities of sensing, seizing and reconfiguration capabilities, most retailers agreed that they were keen on sensing and assessing the changing market trends concerning their sector and seizing the prevailing market opportunities through product and service improvement but it was observed that SMREs were a bit slow in reconfiguration the retailing processes with most retailers citing high cost of reconfiguring their offerings. Customer orientation informed the retailers more on the competitive strategies to adapt that the competition orientations as indicated in Table 4.10.

Table 4.10: Aggregated Means and Standard Deviations of the Independent Variables

Dynamic Capabilities	Min	Max	Mean	S.D
Sensing capabilities	1.00	5.00	3.8530	.89967
Seizing capabilities	1.00	5.00	3.5189	1.0134
Reconfiguration capabilities	1.00	5.00	3.30175	1.0205
Competitor-orientation	1.00	5.00	3.7526	.99266
Customer-orientation	1.00	5.00	4.0203	.78047

4.4 Inferential Statistics

4.4.1 Tests for Regression Analysis Assumptions

1. Normality

Normality is one of three assumptions for multivariate analysis. Regression assumes normality between the variables under analysis (Hair *et al.,* 2010). Normality can be defined as ‚the shape of the data distribution for an individual metric variable and its correspondence to the normal distribution, the benchmark for statistical methods (Hair *et al.,* 2010). Skewness and kurtosis measures of the distributions should be calculated (Tabachnick and Fidell, 2007). Where skewness describes how symmetrical the distribution is around the centre, kurtosis describes how flat or peaked the distribution is (Cohen *et al.,* 2003). A variable with perfect normal distribution has zero skewness and kurtosis (Hair *et al.,* 2010). To assess how far the value of skewness and kurtosis depart from normality, a rule of thumb suggests that the value for skewness and kurtosis should be between ±1. Table 4.11 shows all variables with corresponding skewness and kurtosis values. Clearly, most of the variables did not violate (or are at least close enough to) the assumption of normality based on the rule of ±1 statistics threshold (Aluja *et al.,* 2005).

Table 4.11: Skewness and Kurtosis Scores

	N	Skewness		Kurtosis	
Variables	**Statistic**	**Statistic**	**Std. Error**	**Statistic**	**Std. Error**
Sensing capabilities	300	-.208	.198	.198	.394
Seizing capabilities	300	-.838	.198	.783	.394
Reconfiguration capabilities	298	-.363	.199	.641	.395
Competitor-orientation	300	-.218	.198	-.743	.394
Customer-orientation	300	-.645	.198	.735	.394
Competitive advantage	298	.156	.199	.444	.395

2. Multicollinearity

Multicollinearity is concerned with high correlation between predictors (independent variables) that are supposed to predict a certain dependent variable(s). Ideally there should be a high correlation between the dependent variable(s) and the independent variables, while the independent variables exhibit low correlation with each other (Hair *et al.,* 2010). Multicollinearity may lead to significant impact on the regression and statistical results because it can be very difficult to distinguish the contribution of a variable that exhibits multicollinearity in predicting the regression relationship (Field, 2005). Table 4.12 present the correlation matrix for all the aggregated variables. Examining the correlations as appears in the Pearson's correlation Table 4.12, there was no sign of multicollinearity. The highest correlation coefficient between variables was 0.595, which does not exceed the threshold of 0.9 as suggested by (Hair *et al.,* 2010).

Table 4.12: Correlation of Independent Variables

		1.Competitive advantage	2. Sensing capabilities	3. Sensing capabilities	4. Sensing capabilities	5. Strategic orientation
1	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	298				
2	Pearson Correlation	.425**	1			
	Sig. (2-tailed)	.000				
	N	298	300			
3	Pearson Correlation	.424**	.574**	1		
	Sig. (2-tailed)	.000	.000			
	N	298	300	300		
4	Pearson Correlation	.447**	.524**	.492**	1	
	Sig. (2-tailed)	.000	.000	.000		
	N	298	298	298	298	298
5	Pearson Correlation	.478**	.595**	.570**	.538**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	298	300	300	298	300

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

To further examine whether multicollinearity might be present, the VIF (Variance Inflation Factor) for independent variables and mediating variables were computed. Table 4.13 reports the mean VIF for all the variables which is 1.334 and no single VIF value is higher than 1.53, which is well below the generally accepted value of 10 and this is consistent with (Cohen *et al.,* 2003), who says that VIF >10 indicate the presence of high collinearity implying the variable is a linear function of another variable in the same model. The VIF values in this case suggest that problems of multicollinearity are unlikely to occur.

Table 4.13: Variance Inflation Factor for Independent Variables

Variable	VIF	1/VIF
Sensing	1.49	0.671140
Seizing	1.23	0.813008
Reconfiguration	1.53	0.653594
Competition-orientation	1.16	0.862068
Customer-orientation	1.26	0.793650
Mean VIF	**1.334**	

3. Homoscedasticity

Homoscedasticity assumes "that the dependent variable(s) exhibit an equal level of variance across the range of predictor variable(s)". Homoscedasticity is one of the assumptions required for multivariate analysis. Although the violation of homoscedasticity might reduce the accuracy of the analysis, the effect on ungrouped data is not fatal (Tabachnick and Fidell, 2007). Levene test was employed to assess the equality of variances for the five variables calculated (sensing, seizing and reconfiguration capabilities, consumer and competition orientation). Regression analysis assumes that variances of the populations from which different samples are drawn are equal. From table 4.14, the resulting P-value of Levene's test is less than the conventional 0.05 critical value, indicating that the obtained differences in sample variances are likely not to have occurred based on random sampling from a population with equal variances. Thus, there is significant difference between the variances in the population.

Table 4.14: Test of Homogeneity of Variances

Levene Statistic	df1	df2	Sig.
1.626	5	291	.043

4.4.2 Test of Hypothesis

The research used multiple linear regression analysis to determine the linear statistical relationship between the independent, mediating and dependent variables for this study. All the seven null hypotheses were tested using the multiple regression models. For each hypothesis, the regression equations were first obtained using the beta coefficients on the line of best fit. The decision rule was to reject H_o: $\beta_i = 0$ if the regression coefficients are significantly different from zero and consequently accept the alternate hypothesis H_a: $\beta_i \neq 0$.

Hypothesis 1 (H_{01}): There is no significant relationship between dynamic capabilities and competitive advantage of Small and Medium retail enterprises in Kenya.

A regression model containing the three independent variables (sensing capabilities, seizing capabilities and reconfiguration capabilities) was run to predict competitive advantage from the omnibus effect of the three. The multiple regression model for this hypothesis was:

$Y = \beta 0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + ę$--model (i)

Where; Y= competitive advantage

β0=constant

βi is the coefficient for Xi (i=1, 2,3)

Independent variables are:

X_1– sensing capabilities,

X_2– seizing capabilities,

X_3– reconfiguration capabilities,

ę = error term

From the table 4.15 the multiple linear regression results the indicates that there exist a positive linear relationship between the three hypothesis dynamic capabilities constructs (sensing capabilities, seizing capabilities and reconfiguration capabilities) with competitive advantage in that, 20% of the variation in competitive advantage is explained by sensing capabilities, 25.50% of the variation in competitive advantage is explained by reconfiguration capabilities while 28.5% of the variation in competitive advantage is explained by reconfiguration capabilities.

The results of ANOVA tests in which F-test was carried out using the Analysis of Variance (ANOVA) to determine whether there is a regression model $Y = \beta 0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 +$ ȩ where; X_1– sensing capabilities, X_2– seizing capabilities, X_3– reconfiguration respectively was significant. Table 4.15 indicates the linear regression F-test results where the tabulated $F_{0.05,3,297}=3.84$ is less than the computed F-value of, 19.249, 24.955 and 36.753 respectively, hence conclude that with 95% confidence dynamic capabilities has explanatory power on competitive advantage. Using the standard beta coefficients on the line of best fit the regression equations was obtained as follows;

$Y = 2.782 +. 055X_1 + .269X_2 +. 447X_3$-- (model 1)

Where;

Y= competitive advantage

X_1– sensing capabilities,

X_2– seizing capabilities,

X_3– reconfiguration capabilities,

Table 4.15: Regression Results on the Relationship between Dynamic Capabilities and Competitive Advantage

Predictor variables	R^2	β	F	Sig.	t	Sig.
Constant		2.782				
X_1	.200	.055	19.249	.000	3.382	.000
X_2	.255	.269	24.955	.000	3.275	.001
X_3	.285	. 447	36.753	.000	6.062	.001

P<0.05

Dependent Variable(Y): Competitive advantage

Predictors: (Constant),
X_1– sensing capabilities,
X_2– seizing capabilities,
X_3– reconfiguration capabilities

To test the hypothesis, the decision rule was reject H_0: $\beta_i = 0$ (i=1, 2, 3) if the regression coefficient is significantly different from zero and consequently accept the alternate hypothesis H_a: $\beta_i \neq 0$ (i=1, 2, 3). From the results of regression analysis between all the three hypothesized dynamic capabilities components and competitive advantage, there is enough evidence to reject the null hypothesis H_{01} that: There is no significant relationship between dynamic capabilities and competitive advantage amongst small and medium-retailing enterprises in Kenya. This is because the beta coefficient of sensing, seizing and reconfiguration capabilities ($\beta_1, \beta_2, \beta_3$,= 0.055, 0.269, 0.447) respectively and t-statistic = 3.382, 3.275, 6.062 being > conventional t=2.000. The p-value is less than the conventional 0.05 implying that $\beta_{1,\ 2,\ 3} \neq 0$ hence dynamic capabilities influence competitive advantage.

1. **Discussion of Findings on the Relationship Between Dynamic Capabilities and Competitive Advantage**

The multiple regression analysis on Table 4.15 indicates a positive and significant linear relationship between dynamic capabilities constructs (sensing, seizing and reconfiguration capabilities) and competitive advantage of SMREs in Kenya. The results clearly indicates that, reconfiguration capabilities was the best predictor of competitive advantage with (beta value of .447) and explains 28.5% of the variation in competitive advantage (R^2=0.285). To test whether the three dynamic capabilities significantly contributed to the overall variance accounted by regression t-test was used the results showed that that reconfiguration capabilities significantly contributed to variation in SMREs competitive advantage, t=6.062. This implies that, SMREs dynamic capability is directly related to both the sensing and responding components of enterprise agility. With respect to sensing, enterprises must have adequate ability to anticipate or sense changes relevant to their business that are brought about specifically due to customers dynamics and competition intensity. The results from the findings supports that sensing capability is critical for responding to emerging opportunities in a timely manner (Sambamurthy *et al.,* 2003).

Ridder, (2012) says that enterprises require the dynamic capability of external sensing for recognizing valuable sources of external resource renewal. Zahra, Sapienza and Davidsson, (2006) adds that, frequent dynamic capability deployment also indicates that enterprises regularly look for market opportunities and threats against which to align their resource base. This leads to the resource base being better aligned to the market place and consequently improves competitive advantage. According to Ridder, 2012, enterprises need to be able to absorb the knowledge contained in the external sources and to be able to integrate it into their internal innovative processes. She says that the dynamic capability of external seizing refers to the capacity to address opportunities for external renewal and implement external resources within the enterprise.

Jantunen, Ellonen and Johansson, (2012) adds that, transformation stage takes place after the right opportunities have been sensed and seized and it is achieved when these opportunities are addressed in conjunction with enterprise knowledge assets, competencies and resources. To summarize, dynamic capabilities appears to be an appropriate theoretical framework to study how SMREs in Kenya need to identify and respond to changes in their external environment since the findings supports that they are the dynamic processes instrumental in creating and sustaining competitive advantage.

Hypothesis 2 (H_{02}): Strategic orientation has no significant mediating effect on the relationship between sensing capabilities and competitive advantage of Small and Medium retail enterprises in Kenya.

To estimate the effect of a mediator variables M (competition orientation) and N (customer orientation) on the X_1-Y relationship involves a regression equation that includes Y as a criterion and X_1 M and N as the predictors. A regression model containing the sensing capabilities, competition orientation, customer orientation and competitive advantage was run to determine the relationship between the four.

A regression model containing the three independent variables (sensing capabilities, competition orientation and customer orientation) was run to predict competitive advantage from the omnibus effect of the three.

The general multiple regression model for this hypothesis was:

$Y = \beta 0 + \beta_4 X_1 + \beta_5 M + \beta_6 N + ȩ$---model (ii)

Where; Y= competitive advantage

Independent variables are:

X_1– Sensing capabilities,

M– Competition orientation,

N– Customer orientation,

ȩ = error term

From the table 4.16, the multiple linear regression results the indicates that there exist a positive linear relationship between the three hypothesed constructs (sensing capabilities, competition orientation, customer orientation) with competitive advantage in that, 15.2% of the variation in competitive advantage is explained by sensing capabilities, 32.0% of the variation in competitive advantage is explained by competition orientation while 40.1% of the variation in competitive advantage is explained by customer orientation.

The results of ANOVA tests in which F-test was carried out using the Analysis of Variance (ANOVA) to determine whether there is a regression model $Y = \beta 0 + \beta_4 X_1 + \beta_5 M + \beta_6 N + ȩ$ where; X_1– sensing capabilities, M– competition orientation, N– customer orientation respectively was significant. Table 4.16 indicates the linear regression F-test results where the tabulated $F_{0.05,3,297}=3.84$ is less than the computed F-value of, 9.213, 25.320 and 39.223 respectively, hence conclude that with 95% confidence that sensing capabilities, competition orientation and customer orientation has explanatory power on competitive advantage. Using the standard beta coefficients on the line of best fit the regression equations was obtained as follows;

$Y = 4.362 + .021X_1 + .298M + .457N$-- (model 2)

Where;

Y= competitive advantage

X_1– Sensing capabilities,

M– Competition orientation,

N– Customer orientation,

Table 4.16: Regression Results on the Relationship between sensing capabilities, competition orientation, customer orientation and Competitive Advantage

Predictor variables	R^2	β	F	Sig.	t	Sig.
Constant		4.362				
X_1	.152	.021	9.213	.000	2.001	.065
M	.320	.298	25.320	.000	5.235	.001
N	.401	.457	39.223	.000	8.622	.001

$P<0.05$

Dependent Variable(Y): Competitive advantage

Predictors: (Constant),

X_1– Sensing capabilities,

M– Competition orientation,

N– Customer orientation,

To test the hypothesis, the decision rule was reject H_0: $\beta_i = 0$ (i=4,5,6) if the regression coefficient is significantly different from zero and consequently accept the alternate hypothesis H_a: $\beta_i \neq 0$ (i=4,5,6). From the results of regression analysis between all the three hypothesized constructs and competitive advantage, there is enough evidence to reject the null hypothesis H_{01} that: Strategic orientation has no significant mediating effect on the relationship between sensing capabilities and competitive advantage of Small and Medium retail enterprises in Kenya. This is because the beta coefficient of sensing capabilities, competition orientation and customer orientation ($\beta_{4,}$ $\beta_{5,}$ $\beta_{6,}$ = .021, .298, .457) respectively and t-statistic = 3.00, 5.235, 8.622 being > conventional t=2.000. The p-value is less than the conventional 0.05 implying that $\beta_{4,5,6} \neq 0$ hence competition orientation, customer orientation has significant full mediation on the relationship between Sensing capabilities and competitive advantage of SMREs in Kenya.

2. Discussion of Findings on the Relationship between Sensing Capabilities, Strategic Orientation and Competitive Advantage

The multiple regression analysis on Table 4.16 indicates a positive and significant linear relationship between the three hypothesized constructs (sensing capabilities, competition orientation and customer orientation) and competitive advantage of SMREs in Kenya. The results clearly indicate that, both competition and customer orientation fully mediates on the relationship between sensing capabilities and competitive advantage of SMRES. This is because after introducing the mediating variables the explanatory power of X_1 no Y reduces from 20% to 15.2%. To test whether the two mediating variables significantly contributed to the overall variance accounted by regression, t-test was used and the results showed that that competition orientation and customer orientation fully mediates the relationship between sensing capabilities and competitive advantage in SMREs because t= 2.000 shows that sensing capabilities is not significantly different from zero since p=.065 is greater than the conventional .05. Additionally, customer orientation has more explanatory power competitive advantage than competition orientation. Discussions of the findings after testing hypothesis 2 are as follows;

The above results are confirmed in that, when an enterprise gains or exploits attributes and resources that permit it to surpass its competitors by offering customers a greater value, competitive advantage is said to have occurred (Huang *et al.,* 2012). It is conceivable that an enterprise might be able to sense environmental change relevant to their business (high sensing) but the response to the competitors' actions, consumer preference changes and economic shifts is the key to leveraging competitive advantages. The findings supports the premise that, sensing capabilities allow the realization of new opportunities in a business environment and the conversion of the organizational resource base in terms of both tangible and intangible assets and capabilities (Easterby-Smith *et al.* 2009). They form a logical interrelated chain of activities in which the sensing links the organization with the external environment, with the task of detecting new relevant information for the organization (Helfat and Peteraf, 2009.

These findings concur with Donaldson, (2001) who argues that, the processes of scanning the environment and markets, interpreting and evaluating that information, gaining an accurate understanding of how this impact on the organization but most importantly, reconfiguring/recombining resources to stay ahead of the competition in terms of customer offerings is the key factor that will give an enterprise a competitive advantage.

Hypothesis 3 (H_{03}): Strategic orientation has no significant mediating effect on the relationship between seizing capabilities and competitive advantage of Small and Medium retail enterprises in Kenya.

To estimate the effect of a mediator variables M (competition orientation) and N (customer orientation) on the X_2-Y relationship involves a regression equation that includes Y as a criterion and X_2 M and N as the predictors. A regression model containing the seizing capabilities, competition orientation, customer orientation and competitive advantage was run to determine the relationship between the four. A regression model containing the three independent variables (seizing capabilities, competition orientation and customer orientation) was run to predict competitive advantage from the omnibus effect of the three.

The general multiple regression model for this hypothesis was:

$Y = \beta 0 + \beta_7 X_2 + \beta_8 M + \beta_9 N + ȩ$--eqn (ii)

Where; Y= competitive advantage

X_2– Seizing capabilities,

M– Competition orientation,

N– Customer orientation,

ȩ = error term

From the table 4.17, the multiple linear regression results the indicates that there exist a positive linear relationship between the three hypothesed constructs (seizing capabilities, competition orientation, customer orientation) with competitive advantage in that, 10.8% of the variation in competitive advantage is explained by seizing capabilities, 35.1% of the variation in competitive advantage is explained by competition orientation while 37.2% of the variation in competitive advantage is explained by customer orientation.

The results of ANOVA tests in which F-test was carried out using the Analysis of Variance (ANOVA) to determine whether there is a regression model Y= $\beta 0+ \beta_7 X_2+ \beta_8 M + \beta_9 N+$ ę where; X_2– seizing capabilities, M– competition orientation, N– customer orientation respectively was significant. Table 17 indicates the linear regression F-test results where the tabulated $F_{0.05,3,297}$=3.84 is less than the computed F-value of, 8.201, 23.10 and 37.103 respectively, hence conclude that with 95% confidence that seizing capabilities, competition orientation and customer orientation has explanatory power on competitive advantage. Using the standard beta coefficients on the line of best fit the regression equations was obtained as follows;

Y = 3.214+.015X_2+ .310M +.413N---(model3)

Where;

Y= competitive advantage

X_2– seizing capabilities,

M– Competition orientation,

N– Customer orientation,

Table 4.17: Regression Results on the Relationship between seizing capabilities, competition orientation, customer orientation and Competitive Advantage

Predictor variables	R^2	β	F	Sig.	t	Sig.
Constant		3.214				
X_3	.108	.015	8.201	.000	2.1002	.045
M	.351	.310	23.101	.000	4.342	.001
N	.372	.413	37.103	.000	7.335	.001

P<0.05

Dependent Variable(Y): Competitive advantage

Predictors: (Constant),

X_2– Seizing capabilities,

M– Competition orientation, N– Customer orientation, To test the hypothesis, the decision rule was reject H_0: $\beta_i = 0$ (i=7,8,9) if the regression coefficient is significantly different from zero and consequently accept the alternate hypothesis H_a: $\beta_i \neq 0$ (i=7,8,9). From the results of regression analysis between all the three hypothesized constructs and competitive advantage, there is enough evidence to reject the null hypothesis H_{03} that: Strategic orientation has no significant mediating effect on the relationship between seizing capabilities and competitive advantage of Small and Medium retail enterprises in Kenya. This is because the beta coefficient of seizing capabilities, competition orientation and customer orientation (β_7, β_8, β_9,= .015, .310, .413) respectively and t-statistic = 2.1002, 4.342, 7.335 being > conventional t=2.000. The p-value is less than the conventional 0.05 implying that $\beta_{7,8,9} \neq 0$ hence competition orientation, customer orientation has significant partial mediation on the relationship between seizing capabilities and competitive advantage of SMREs in Kenya.

3. Discussion of Findings on the Relationship between Seizing Capabilities, Strategic Orientation and Competitive Advantage

The multiple regression analysis on Table 4.17 indicates a positive and significant linear relationship between the three hypothesized constructs (seizing capabilities, competition orientation and customer orientation) and competitive advantage of SMREs in Kenya. The results clearly indicate that, both competition and customer orientation partially mediates on the relationship between seizing capabilities and competitive advantage of SMRES. This is because after introducing the mediating variables the explanatory power of X_2 on Y reduces from 25.5% to 10.8%. To test whether the two mediating variables significantly contributed to the overall variance accounted by regression, t-test was used and the results showed that that competition orientation and customer orientation partially mediates the relationship between seizing capabilities and competitive advantage in SMREs because t= 2.1002 shows that seizing capabilities is significantly different from zero since p=.045 is less than the conventional .05. Additionally, customer orientation has more explanatory power competitive advantage than competition orientation. Discussions of the findings after testing hypothesis 3 are as follows;

According to Narver *et al.,* (2004), a responsive market orientation is discovering, understanding and satisfying of expressed customer needs. The result of this research supports the finding that how SMREs learn about and act upon customers' needs has predominantly focused on processes for responding effectively to the expressions of customers' current needs. That's why from the results customer oriented strategies of acting upon the market dynamics through seizing are significantly mediating for competitive advantage of SMREs in Kenya.

Hypothesis 4 (H_{04}): Strategic orientation has no significant mediating effect on the relationship between reconfiguration capabilities and competitive advantage of Small and Medium retail enterprises in Kenya.

To estimate the effect of a mediator variables M (competition orientation) and N (customer orientation) on the X_3-Y relationship involves a regression equation that includes Y as a criterion and X_3 M and N as the predictors. A regression model containing the reconfiguration capabilities, competition orientation, customer orientation and competitive advantage was run to determine the relationship between the four. A regression model containing the three independent variables (reconfiguration capabilities, competition orientation and customer orientation) was run to predict competitive advantage from the omnibus effect of the three. The general multiple regression model for this hypothesis was:

$Y = \beta0+ \beta_{10}X_3+ \beta_{11}M + \beta_{12}N+ ę$---eqn (iv)

Where; Y= competitive advantage

Independent variables are:

X_3– Reconfiguration capabilities,

M– Competition orientation,

N– Customer orientation,

ę = error term

From the table 4.18 the multiple linear regression results the indicates that there exist a positive linear relationship between the three hypothesed constructs (reconfiguration capabilities, competition orientation, customer orientation) with competitive advantage in that, 19.3% of the variation in competitive advantage is explained by reconfiguration capabilities, 35.1% of the variation in competitive advantage is explained by competition orientation while 37.2% of the variation in competitive advantage is explained by customer orientation.

The results of ANOVA tests in which F-test was carried out using the Analysis of Variance (ANOVA) to determine whether there is a regression model $Y = \beta 0 + \beta_{10} X_3 + \beta_{11} M + \beta_{12} N +$ ȩ where; X_3– reconfiguration capabilities, M– competition orientation, N– customer orientation respectively was significant. Table 4.18 indicates the linear regression F-test results where the tabulated $F_{0.05,3,297}=3.84$ is less than the computed F-value of, 10.633, 28.115, 40.006 respectively, hence conclude that with 95% confidence that reconfiguration capabilities, competition orientation, customer orientation has explanatory power on competitive advantage. Using the standard beta coefficients on the line of best fit the regression equations was obtained as follows;

$Y = 10.335 + .112X_3 + .390M + .419N$--- (model4)

Where;

Y= competitive advantage

X_3– reconfiguration capabilities,

M– Competition orientation, N– Customer orientation,

Table 4.18: Regression results on the Relationship between reconfiguration capabilities, competition orientation, customer orientation and Competitive Advantage

Predictor variables	R^2	β	F	Sig.	t	Sig.
Constant		10.335				
X_3	.193	.112	10.633	.000	3.006	.0021
M	.457	.390	28.115	.000	5.110	.001
N	.501	.419	40.006	.000	8.338	.001

$P<0.05$

Dependent Variable(Y): Competitive advantage

Predictors: (Constant),

X_3– Reconfiguration capabilities,

M– Competition orientation,

N– Customer orientation,

To test the hypothesis, the decision rule was reject H_0: $\beta_i = 0$ (i=10, 11, 12) if the regression coefficient is significantly different from zero and consequently accept the alternate hypothesis H_a: $\beta_i \neq 0$ (i=10, 11, 12). From the results of regression analysis between all the three hypothesized constructs and competitive advantage, there is enough evidence to reject the null hypothesis H_{04} that: Strategic orientation has no significant mediating effect on the relationship between reconfiguration capabilities and competitive advantage of Small and Medium retail enterprises in Kenya. This is because the beta coefficient of reconfiguration capabilities, competition orientation and customer orientation ($\beta_{10,}$ $\beta_{11,}$ $\beta_{12,}$ = .112, .390, .419) respectively and t-statistic = 3.006, 8.338, 5.110being > conventional t=2.000. The p-value is less than the conventional 0.05 implying that $\beta_{10,11,12} \neq 0$ hence competition orientation, customer orientation has significant partial mediation on the relationship between reconfiguration capabilities and competitive advantage of SMREs in Kenya.

4. Discussion of Findings on the Relationship between reconfiguration Capabilities, Strategic Orientation and Competitive Advantage

The multiple regression analysis on Table 4.18 indicates a positive and significant linear relationship between the three hypothesized constructs (reconfiguration capabilities, competition orientation and customer orientation) and competitive advantage of SMREs in Kenya. The results clearly indicate that, both competition and customer orientation partially mediates on the relationship between reconfiguration capabilities and competitive advantage of SMRES. This is because after introducing the mediating variables the explanatory power of X_3 on Y reduces from 28.5% to 19.3%. To test whether the two mediating variables significantly contributed to the overall variance accounted by regression, t-test was used and the results showed that that competition orientation and customer orientation partially mediates the relationship between reconfiguration capabilities and competitive advantage in SMREs because t= 3.006 shows that reconfiguration capabilities is significantly different from zero since p=.0021 is less than the conventional .05. Additionally, customer orientation has more explanatory power competitive advantage than competition orientation. Discussions of the findings after testing hypothesis 4 are as follows;

From the forgoing results it's evident that SMREs are employing continuous product and process improvement to create greater value to achieve competitive advantage. Most SMREs reported that they have had to restructure their product delivery systems such by diversifying into more products such as M-pesa services, car-services, internet services and so on in the process of adapting to new processes to pursue more benefits and still others will first sense the changes to achieve first-mover benefits. The results shows that though it's important to sense and seize the changing market trend, its until the enterprise focus more on transformation practices can also be evolutionary to the enterprise competitiveness.

Hypothesis 5 (H_{05}): Strategic orientation has no significant mediating effect on the relationship between dynamic capabilities and competitive advantage of Small and Medium retail enterprises in Kenya.

To estimate the effect of a mediator variables M (competition orientation) and N (customer orientation) on the X-Y relationship involves a regression equation that includes Y as a criterion and X, M and N as the predictors. A regression model containing the three dynamic capabilities constructs, competition orientation, customer orientation and competitive advantage was run to determine the relationship between the six.

A regression model containing the six independent variables (sensing, seizing, reconfiguration capabilities, competition orientation and customer orientation) was run to predict competitive advantage from the omnibus effect of the six. The general multiple regression model for this hypothesis was:

$Y = \beta 0 + \beta_{13}X_1 + \beta_{14}X_2 + \beta_{15}X_{3+}\beta_{16}M + \beta_{17}N + ȩ$---eqn (v)

Where; Y= competitive advantage

Independent variables are:

X_1– sensing capabilities,

X_2– seizing capabilities,

X_3– reconfiguration capabilities

M– Competition orientation,

N– Customer orientation,

ȩ = error term

$\beta_i M$, $\beta_i N$, = mediating variables

From the table 4.19 the multiple linear regression results the indicates that there exist a positive linear relationship between the three hypothesed constructs (reconfiguration capabilities, competition orientation, customer orientation) with competitive advantage in that, 11.2% of the variation in competitive advantage is explained by sensing capabilities, 13.6% of the variation in competitive advantage is explained by seizing capabilities, 21.0% of the variation in competitive advantage is explained by reconfiguration capabilities, 51.2% of the variation in competitive advantage is explained by competition orientation while 60.1% of the variation in competitive advantage is explained by customer orientation.

The results of ANOVA tests in which F-test was carried out using the Analysis of Variance (ANOVA) to determine whether there is a regression model $Y = \beta 0 + \beta_{13}X_1 + \beta_{14}X_2 + \beta_{15}X_{3+}\beta_{16}M + \beta_{17}N + ȩ$ where; X_1– sensing capabilities, X_2– seizing capabilities, X_3– reconfiguration capabilities, M– competition orientation, N– customer orientation respectively was significant. Table 4.19 indicates the linear regression F-test results where the tabulated $F_{0.05,3,297}$=3.84 is less than the computed F-value of, 5.448, 46.279, 11.661, 30.115, 6.334 respectively, hence conclude that with 95% confidence that reconfiguration capabilities, competition orientation, customer orientation has explanatory power on competitive advantage. Using the standard beta coefficients on the line of best fit the regression equations was obtained as follows;

$Y = 5.228 + .012X_1 + .135X_2 + .158X_3 + .422M + .561N$------------------------------ (model5)

Where;

Y= competitive advantage

X_1– sensing capabilities,

X_2– seizing capabilities,

X_3– reconfiguration capabilities,

M– Competition orientation,

N– Customer orientation,

Table 4.19: Regression results on the Relationship between dynamic capabilities, competition orientation, customer orientation and Competitive Advantage

Predictor variables	R^2	β	F	Sig.	t	Sig.
Constant		5.228				
X_1	.112	.012	5.448	.0001	1.996	.0576
X_2	.136	.135	6.334	.000	3.772	.0001
X_3	.210	.158	11.661	.000	4.358	.00011
M	.512	.422	30.115	.000	6.220	.001
N	.601	.561	46.279	.000	9.0012	.001

$P<0.05$

Dependent Variable(Y): Competitive advantage

Predictors: (Constant),

X_1– sensing capabilities,

X_2– seizing capabilities,

X_3– Reconfiguration capabilities,

M– Competition orientation,

N– Customer orientation,

To test the hypothesis, the decision rule was reject H_0: $\beta_i = 0$ (i=13,14,15,16,17) if the regression coefficient is significantly different from zero and consequently accept the alternate hypothesis H_a: $\beta_i \neq 0$ (i=13,14,15,16,17). From the results of regression analysis between all the five hypothesized constructs and competitive advantage, there is enough evidence to reject the null hypothesis H_{05} that: Strategic orientation has no significant mediating effect on the relationship between dynamic capabilities and competitive advantage of Small and Medium retail enterprises in Kenya. This is because the beta coefficient of sensing, seizing, reconfiguration capabilities, competition orientation and customer orientation ($\beta_{13,}$ $\beta_{14,}$ $\beta_{15,}$ $\beta_{16,}$ $\beta_{17,}$ = .012, .135, .158, .422, .561) respectively and t-statistic = 3.772, 4.358, 6.220, 9.0012 being > conventional t=2.000. The p-value is less than the conventional 0.05 implying that $\beta_{14,}$ $\beta_{15,}$ $\beta_{16,}$ $\beta_{17} \neq 0$ hence competition orientation, customer orientation has significant partial mediation on the relationship between seizing capabilities and reconfiguration capabilities and competitive advantage of SMREs in Kenya. However there's full mediation on the relationship between sensing capabilities and competitive advantage since t-statistic = 1.996 being < conventional t=2.000. The p-value is greater than the conventional 0.05 implying that $\beta_{13,} = 0$ thus insignificant.

5. Discussion of Findings on the Relationship between Dynamic Capabilities, Strategic Orientation and Competitive Advantage

The multiple regression analysis on Table 4.19 indicates a positive and significant linear relationship between the five hypothesized constructs (sensing, seizing and reconfiguration capabilities, competition orientation and customer orientation) and competitive advantage of SMREs in Kenya. The results clearly indicate that, both competition and customer orientation partially mediates on the relationship between seizing capabilities and reconfiguration capabilities and competitive advantage of SMRES but fully mediates the relationship between sensing capabilities and competitive advantage of SMREs in Kenya. This is because after introducing the mediating variables the explanatory power of X_1 on Y, X_2 on Y, X_3 on Y reduces from 20% to 11.2%, 25.5% to 13.6% and 28.5% to 21.0%. To test whether the two mediating variables significantly contributed to the overall variance accounted by regression, t-test was used and the results showed that that competition orientation and customer orientation partially mediates the relationship between seizing capabilities and reconfiguration capabilities and competitive advantage in SMREs because t= 3.772, 4.358 shows that seizing capabilities and reconfiguration capabilities are significantly different from zero since p=.001 are less than the conventional .05.

However, from the overall model, the results showed that that competition orientation and customer orientation fully mediates the relationship between sensing capabilities and competitive advantage in SMREs because t= 1.996 shows that sensing capabilities is not significantly different from zero since p=.0576 is greater than the conventional .05. Additionally, customer orientation has more explanatory power competitive advantage than competition orientation. Discussions of the findings after testing hypothesis 5 are as follows;

Competitor orientation is one of three dimensions of market orientation. The results above indicate that SMREs in Kenya a tendency to have more customers oriented competitive strategies as compared to competition orientation. This contradicts the findings that in a stronger competitive orientation, enterprises are likely implement both market-driven and market-driving strategies to respond to competitors' moves and postures and to identify and exploit their abilities for capturing competitive markets and environments (Johnson, Lee, Saini and Grohmann, 2003).

The research findings support that since the retail sector has become increasingly dynamic outside-in capabilities become more important as avenues to leverage greater performance of small and medium retail enterprise (such as, O'Regan *et al.,* 2006). Carpenter and Sherry, (2006) suggested that creating strong market orientation requires dramatic changes to an organization's culture as well as creating organizationally-shared market understanding. Conversely, the research findings reinforce the theory of responsive market orientation. A responsive market orientation may generate incremental performance over others in the market (Mohr *et al.,* 2010). These results support the findings that responsive a more customer-oriented has effect on incremental performance (Li *et al.,* 2008). These findings also indicate that responsive customer orientation has more positively impact on above average performance of SMREs than responsive competitor orientation. This is because, due to the resource limitations of SMREs as compared to the giant retailers may not equitably compete against the competitors actions but within their means can focuses on delivering greater value to their customers.

They attempt to know competitors' capabilities and strategies and anticipate competitors' actions and behaviors in order to create and maintain an offer of generating greater and superior value associated with competitors. Integrating existing skills, knowledge and infrastructure have been implemented and exploited to compete with the competitors. With respect to competitive environments, enterprises rigorously adapt strategic strategy by developing and offering competitor orientation to facilitate their performance (Perry and Shao, 2005). They pursue growth product via potential new technology and achieve superior performance via effective adaptation of competitor orientation. Accordingly, competitor orientation is a significantly positive effect of performance in the retail industry in Greece (Panigyrakis and Theodoridis, 2007). It is also a key determinant and a major impact of enterprise performance.

To additionally reinforce sustainable competitive advantage, enterprises are willingness to generate organizational commitment and learning through a resource capable of competitor orientation (Santos-Vijande *et al.,* 2005). Greater competitor orientation seems to influence better business profitability and impact on potential competitiveness. Similar to other enterprises, SMEs will implement the concept of competitor orientation to establish customer and business values which primarily pursue their outcome and competitiveness. Thus, competitor orientation is likely to have an explicitly important effect on competitiveness. Therefore, SMREs with stronger competitor orientation will potentially achieve greater competitiveness. The results indicates that SMREs in Kenya needs to adopt more customer-oriented strategies since they have a direct influence on customer satisfaction and a significant impact on enterprise performance (Stock and Hoyer, 2005). They also have an outstandingly positive relationship on their organizational commitment, new product development and introduction activity. To pursue business goals, objectives and successes, customer orientation is also an important determinant of enterprises' performance, competitive advantage and competitiveness (Panigyrakis & Theodoridis, 2007). It potentially helps enterprises achieve higher performance, benefit, advantage and outcome and earn greater organizational profitability (Narver & Slater, 1990). Similarly, SMREs use its customer-oriented culture to create a sustainable competitive advantage (Martin & Martin, 2005). Their customer orientation improves performance and responsiveness to changing markets. Rigorously emphasizing on customer orientation tends to intensively receive superior performance and competitiveness. Thus, customer orientation is likely to have an explicitly important effect on competitiveness. Therefore, SMREs with stronger customer orientation will potentially achieve greater competitive advantage.

CHAPTER FIVE

5.0 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter presents the summary of the study as guided by the specific objectives, conclusions and recommendations for action and future research direction.

5.1 Summary of the Findings

The purpose of this study was to investigate the mediating effect of strategic orientation on relationship between dynamic capabilities and competitive advantage of small and medium-retail enterprises in Kenya. In particular, the study was designed to explore the dynamic capabilities dimensions of sensing capabilities, seizing capabilities and reconfiguration capabilities for enhanced competitive advantage given the competition and customer-orientations of small and medium-retailing enterprises in Kenya.

5.1.1 To evaluate the relationship between dynamic capabilities and competitive advantage of Small and Medium retail enterprises in Kenya.

From the results of regression analysis between sensing capabilities and competitive advantage, there is enough evidence to reject the null hypothesis H_{01} that: There is no significant relationship between dynamic capabilities and competitive advantage amongst small and medium-retailing enterprises in Kenya. The study found that best practices of product and service delivery to their customers were well-observed although the fundamental shifts are slowly detected by the industry. The study also found that there is a high sensing of new opportunities to serve customers better than their competitors this is done by regularly checking of the quality of the operational capabilities in comparison with competitors. Since they are very good in observing and anticipating market and customer trends, they establish processes to identify target market segments, changing customer needs and customer innovation.

The study also was reflective on the statement by Neu and Brown, (2005) who indicated that the increasing complexity of customer needs drives enterprises to identify the need for change, the complexity being those customers who increasingly differ on how they want to satisfy their needs. Reconfiguration capability was however found to be impacting on the SMREs competitive advantage more that sensing and seizing capabilities. This was evident in that SMREs were catching up effective resource reconfigurations to adapt to market changes in an appropriate and timely manner.

5.1.2 To determine the influence of strategic orientation relationship between sensing capabilities and competitive advantage of Small and Medium retail enterprises in Kenya.

The study revealed the important full mediating role of customer and competition orientation on the relationship between sensing capabilities and competitive advantage. Specifically, the research found that customer orientation mediated more on the relationship between sensing capabilities than competition orientation. This result suggests that an SMREs needs to develop professional skills and knowledge in designing and developing new products, responding to market changes with pricing tactics, managing good relationships especially customers and delivering communication feedback effectively with the customer more in mind. This defines the level of sensing capabilities to meet customers' needs and therefore, set the foundation for above average performance (Leonidou *et al., 2009*). In addition, sensing the market trends, business men should keep the competition in mind. Therefore, the development of competitive advantage-oriented sensing capabilities, focusing more on the customer than on competitors is within reach of the SMREs and is essential for above average performance (Zhou, Wu & Barnes 2012).

5.1.3 To examine the influence of strategic orientation relationship between seizing capabilities and competitive advantage of Small and Medium retail enterprises in Kenya.

From the results of regression analysis of the mediation relationship between competitive advantage, strategic orientation and seizing capabilities, there is enough evidence to accept the alternate hypothesis $H_{a3:}$ Strategic orientation has a significant mediating effect on the relationship between seizing capabilities and competitive advantage of small and medium retail enterprises in Kenya. According to Narver *et al.,* (2004), a responsive market orientation is discovering, understanding and satisfying of expressed customer needs. The result of this research supports the finding that how enterprises learn about and act upon customers' needs has predominantly focused on processes for responding effectively to the expressions of customers' current needs. That's why from the results customer oriented strategies of acting upon the market dynamics through seizing are significantly mediating for competitive advantage of SMREs in Kenya.

5.1.4 To establish the influence of strategic orientation relationship between reconfiguration capabilities and competitive advantage of Small and Medium retail enterprises in Kenya.

On the relationship between reconfiguration capabilities and competitive advantage of small and medium-retailing enterprises in Kenya, the study shows a significant partial mediation by customer and competition orientations. This was evident through boldness in ways of achieving targets and objectives in an effort to maximize the probability of exploiting opportunities towards their competitors. Apparently, it is not clear on the new ways to combine and connect valuable capability elements; implementation of new kinds of management methods within the business as well as transformation of existing resources into new capabilities such as new products offering, new services delivery systems. The study results are reflective of Teece (2007), who said that dynamic capability means matching and managing the bilateral dependence between strategy and organizational design to achieve strategic fit according to the study.

5.1.5 To analyze the mediating role of strategic orientation on the relationship between dynamic capabilities and competitive advantage of Small and Medium retail enterprises in Kenya.

From the study results, it is clear that the SMREs strategies for competitive advantage are based on an understanding of customers dynamic and competitors' actions. This was because the two variables fully mediated on the relationship between sensing capabilities and competitive advantage but partially mediated the relationship between seizing and reconfiguration capabilities for competitive advantage. The theoretical contribution of this research was to develop the strategic dynamic capabilities orientation, especially responsive and proactive customer and competitor orientations in the effort to sense incremental market dynamics, radical seizing of emerging opportunities and transformation of the resource base for better SMREs performance. The research observed that was achieved by holding discussions of competitors' strengths and strategies as well as visiting the current and prospective competitors to learn their businesses. It is clear that that the increasing pressure of global competition and the need for even higher customization of services and goods has shifted the strategic focus from the effective management of the given resource base towards the ability to proactively modify it in order to meet the rapidly changing needs of customers

In addition to this, the efficient coordination of internal and external capabilities is performed through the development of mediating or spanning capabilities (Day & Nedungadi, 2004). Such capabilities including managerial and strategic capabilities can coordinate the deployment of other enterprise capabilities and are thus expected to increase their efficiency leading to more competitive response options of the enterprises. They are expected to be the dominant influence in shaping competitive responses, since competitive response decision making, analogous to other decision-making processes, is heavily affected by top management and organizational processes (Rajagopalan *et al.,* 2003). Managerial efficiency facilitates increased competitive activity (intensity of competitive reactions) and variety of competitive activity (breadth of competitive reactions) (He & Wong, 2004).

The research has revealed that enterprise capabilities determine the potential scale and scope of enterprise level competitive behaviour, since the availability of an enterprise capability can either facilitate or constrain activities, such as responses to competitive attacks. Dynamic capabilities emphasize the development of management capabilities and difficult-to-imitate combinations of organizational, functional and technological skills to change existing operational mechanisms in order to meet new customer needs and finally to improve competitive advantage (Helfat & Winter, 2011).

5.2 Conclusions

5.2.1 To evaluate the relationship between dynamic capabilities and competitive advantage of Small and Medium retail enterprises in Kenya.

Based on the results of the study, it can also be deduced that dynamic capabilities have significant roles to play in achieving competitive advantage. Therefore, dynamic capabilities are capable of influencing an enterprise's unique capabilities and resources to achieve competitive advantage in a fast changing business environment (Ambrosini & Bowman, 2009). The empirical findings largely indicate that dynamic capabilities have significant impacts on competitive advantage and that SMEs need to go beyond the level of acquiring resources and move to the level of transforming the resources to capabilities, in order to remain competitive in a changing environment.

The study concludes that to set up successful business, the owners must first practise sensing capabilities. This is to identify what sort of business will fit the actual place, who are the competitors and which is the target market that is, consumer. Sensing and identifying the need for change are triggered by two major drivers (Kindström & Kowalkowski, 2009). First, the erosion of profitability and second, the increasing complexity of customer needs drive enterprises to identify the need for change. The complexity of customer needs involves customers who increasingly differ on how they want to satisfy their needs.

5.2.2 To determine the influence of strategic orientation relationship between sensing capabilities and competitive advantage of Small and Medium retail enterprises in Kenya.

The study concludes that small and medium-retailing enterprises in Kenya apply sensing capability in order to be competitive. The study also concluded that the main sensing capability applied by most of the small and medium-retailing enterprises are checking the quality of their operational capabilities in comparison with their competitors; view the likely effect of changes in their business environment on customers; quickly understand new opportunities to serve their customers better than their competitors; they pay a great attention on monitoring the change of operational capabilities, they are very good in observing and anticipating market and customer trends. However, the study observed that small and medium-retailing enterprises sensing capability was seldom utilized since SMREs; were very slow to detect fundamental shifts in their industry; they rarely attend business forums that discuss the changing trends within our business operational environment and finally, they have seldom put feedback measures to assess customer satisfaction systematically and frequently.

5.2.3 To examine the influence of strategic orientation relationship between seizing capabilities and competitive advantage of Small and Medium retail enterprises in Kenya.

Seizing capabilities were found to be an important part of the business as it involves proper planning of all the steps and strategies to be taken in achieving the set targets. This involves a good business plan, identifying the market gap and getting the customer view and feedback. Seizing opportunities refers to the formulation of a strategic response. The decision to seize the opportunities is associated with concrete planning of the entry into the market. Decision- makers tend to be more planners than entrepreneurs (Misangyi *et al.,* 2006). Seizing opportunities is therefore, considered as formulating deliberate (planned) strategies.

The study concluded that small and medium-retailing enterprises in Kenya apply seizing capability in order to be competitive. Additionally, small and medium-retailing enterprises have limited capabilities to effectively develop new knowledge or insights that have the potential to influence their competitive position. But the existing information (such as; market or environment) is not readily available to their business enterprise, they have no data bank for all their customers with an intention of finding solutions for their customers within a short time; they have no formal systems of circulating new information about the market trends in form of documents (such as, reports, newsletters) to update everyone within the business; their employees rarely attend business forums to learn about new market/customer trends, business strategies which they should quickly implement if something important happens (market or strategy development).

5.2.4 To establish the influence of strategic orientation relationship between reconfiguration capabilities and competitive advantage of Small and Medium retail enterprises in Kenya.

On reconfiguration capabilities, this was the capability that was found to be influencing the SMREs competitive advantage strongest. This was evident through the new product and service offerings SMREs have put in place in line with their resource capabilities. However, despite small and medium-retailing enterprises showing boldness in their efforts to maximize in competitive advantage, the study concludes that implementation of reconfiguration capabilities was the hardest part for small and medium-retailing enterprises in Kenya. Majority of the medium-retailing enterprises were unable to identify valuable capability elements to connect and combine them in new ways; were unable to implement new kinds of management methods that are more responsive within their business processes; didn’t transform existing resources into new capabilities (such as; new product offering, new services delivery systems); rarely change the strategic strategies; few small and medium-retailing enterprises rarely integrated new externally sourced capabilities and combined them with existing capabilities into 'novel' combinations.

5.2.5 To analyze the mediating role of strategic orientation on the relationship between dynamic capabilities and competitive advantage of Small and Medium retail enterprises in Kenya.

The small and medium-retailing enterprises strategy for competitive advantage is was found to be strongly mediated by both the understanding of customer needs and their competitors’ actions. Thus, strategic orientation mediates on business dynamic capabilities which have a direct relationship with business competitive advantage. Additionally, when a business is competitively oriented, it constantly reassesses its strengths and weaknesses relative to its competitors. Also, customer-oriented enterprises engaged in by enterprises that sell products and services to the general public need to maintain a positive, high-profile public image. For small and medium-retail enterprises, competition is a serious issue, but it can be engaged in by focusing on the customer rather than on the competition itself. When two competing enterprises both attempt to lure customers through low prices, high quality and good service, they are competing with each other, but through the medium of the customer. This is a different form of competitive orientation than that engaged in by wholesalers and producers of raw materials. Finally, study concludes that enterprise capabilities determine the potential scale and scope of enterprise level competitive behaviour, since the availability of an enterprise capability can either facilitate or constrain activities, such as responses to competitive attacks.

5.3 Recommendations

5.3.1 Recommendations for managerial

On sensing capabilities, the study recommends for more business forums in order to understand their changing trends within their business operational environment and detect fundamental shifts in their industry. Finally, SMREs need to put up feedback measures to assess customer satisfaction systematically and frequently. On seizing capability SMREs, there is need to frequently acquire knowledge about their competitive and market trends from external sources so as to be able to identify and acquire external knowledge (such as; market, customer trends) very quickly. The study recommends that SMREs need to develop data bank for all their customers with an intention of finding solutions for their customers within a short time span, they should develop formal systems of circulating new information about the market trends in form of documents (such as, reports, newsletters) to update everyone within the business; and also attend business forums to learn about new market/customer trends and market or strategy development which they can quickly implement when something important happens.

SMREs should also identify valuable capability elements to connect and combine them in new ways, change their strategic strategies, implement new kinds of management methods that are more responsive within their business processes, transform existing resources into new capabilities and integrated new externally sourced capabilities and combine them with existing capabilities in order to achieve competitive advantage. The study recommends that small and medium-retailing enterprises should embrace more aggressive customers and competitors' orientation strategies in order for them to remain competitive. The study recommends SMREs should understand their competitors' actions in order to develop business tactics and strategies for them to have competitive advantage over their competitors. Finally, the study recommends that SMREs strategies and action should be based on customer satisfaction. This can be achieved through obtaining frequent feedback from their customers, serving customers needs and conducting customer satisfaction surveys. Dynamic capabilities are useful for understanding the wider contexts of small and medium-retailing enterprises change, learning and re-invention and are especially useful as a theoretical lens for investigating enterprise growth and entrepreneurial cluster development in the emerging Kenyan markets. We expect the retailers' understanding of their enterprise's capabilities to drive managerial competitive response decisions since they are expected to undertake their competitive responses based on the evaluation of those capabilities that they perceive as most distinctive or superior related to their competitors.

5.3.2 Recommendations for Policy

This study was carried out during a period when there was economic instability in the country. Future studies could focus on periods of low political and economic turbulence. These kinds of comparative studies could help policy-makers and implementation arms understand the dynamic capabilities and competitive advantage of SMEs thus enabling them to be competitive. The study findings revealed that only a small percentage of business take into consideration the dynamic capabilities. If Kenya is to industrialize by the year 2030, then a policy to improve on dynamic capabilities and competitive advantage of SMEs should be looked into. Policy makers in SMREs should evaluate the inherent capabilities and resources and the competitive strategy to be adopted by the SMREs by the degree to which they contribute directly to the accomplishment of sectoral strategic goals and objectives in line with the Kenya Vision 2030, key contributors being the retail and wholesale trade.

5.3.3 Recommendations for Further Study

Overall, the findings of the study provide substantial support for the conceptual framework. Specifically, the results demonstrate that dynamic capabilities are powerful tools that can directly lead to competitive advantage and indirectly achieve superior performance of SMREs over the giant retailers. The creation of positional competitive advantage (including low-cost advantage, niche and quality deliveries) of the SMREs due to their flexibility and ease of responsiveness suggests a general confirmation of dynamic capabilities theory and the theory of competitive advantage. Based on this, several theoretical implications can be identified for future research directions. Firstly, more empirical effort should be allocated to the study of dynamic capabilities in the context of the small and medium enterprises within a developing country context. Although the important role of strategic capabilities in building competitive advantages and driving superior performance has been acknowledged for a long time (such, Day 1994; Day & Wensley 1988; Snow & Hrebiniak 1980), only recently have studies on this topic begun to emerge especially within developing country's context like Kenya where the appetite for investment has taken shape in the process of transforming these economies.

Specifically, future research may consider exploring other components of dynamic capabilities to enrich the dynamic capabilities theory. For example, how the pricing process is developed can be considered as a capability (Dutta, Zbaracki & Bergen 2003). Moreover, dynamic capabilities are likely to influence other organizational capabilities such as operational capabilities, research and development capabilities and networking capabilities, among others (Krasnikov & Jayachandran 2008; Morgan, Vorhies & Mason 2009; Nath, Nachiappan & Ramanathan 2010). This provides support for the dynamic capabilities theory, suggesting that strategic capabilities can be the determinants of sustainable competitive advantage (Fang & Zou 2009) and the theory of competitive advantage which specifies the causal relationship between competitive advantage and superior performance (Day & Wensley 2008).

Secondly, in order to develop a more comprehensive framework to depict how strategic dynamic capabilities contribute to SMEs competitive advantage, the full and partial mediation effect of competitive advantages should be considered. Although the strategic capabilities-competitive advantage relationship is receiving increasing research attention, extant studies have tended to focus on only one aspect of the hypothesized model. That is, some studies indicate that only through the path of gaining competitive advantage first can strategic dynamic capabilities be translated into competitive advantage (such as, Morgan, Kaleka & Katsikeas 2004; Spyropoulou, Skarmeas & Katsikeas 2011; Zou, Fang & Zhao 2003).

Thirdly, future research could examine the relative importance of the direct effects and indirect effects (via strategic orientations) of strategic capabilities on above average performance. That is, subsequent empirical studies on this comparison are likely to provide more confirmative findings and provide more insights into how resources and skills should be allocated for realizing the full potential of strategic capabilities in achieving export performance. Fourthly, the relationship between the competitive advantages and dynamic capabilities can be captured more precisely. This is by distinguishing the two constructs more clearly and precisely defining the interacting variables relevant to an SME and this would yield more precise research findings on the relationships between them. As a consequence, we are likely to secure a deeper understanding of the precise mechanism through which strategic dynamic capabilities that are linked to superior performance.

Fifthly, future research could investigate the relative importance of low-cost advantage and differentiation advantage in mediating the strategic dynamic capabilities-superior performance relationship. While there has been an increasing examination of competitive advantages (both low-cost advantage and differentiation advantage) in the international strategic area (for example, Hughes *et al.,* 2010; Morgan Schilke, Reimann & Thomas 2009; Solberg 2008), little effort has been made to compare the importance of the two advantages. This leaves insightful managerial implications unknown to future researchers. Sixthly, future studies should also explore the possibility of strategic capabilities moderating the competitive advantage-superior performance relationship. While this study did not investigate the possibility that strategic capability could be a moderator, the strong conceptual underpinning of strategic capability justifies the exploration of this issue further.

Finally, a few potential limitations should be noted. One possible limitation is that antecedents of strategic orientations within SMREs of a middle class economy like Kenya were not examined, as the antecedent variables investigated by the studies reviewed are very fragmented and, therefore, not appropriate for a meta-analysis. Future studies to repeatedly examine these variables, thereby achieving a deeper understanding of local and international strategic orientation and dynamic capabilities theory. Future research may consider examining the hypothesized model to confirm the direct and indirect influence of dynamic capabilities on superior performance and the mediating role of strategic orientations in explaining dynamic capabilities-superior performance relationships in practice by the SMREs since the Kenyan economy is on a transition to a middle class economy and enormous giant investments are setting in.

5.3.4 Recommendations for Practice

The contribution of this research is also to develop a conceptual and theoretical understanding on incremental and radical deployment of capabilities in the effort to improve performance, especially for small and medium retail enterprises in Kenya. The result of this research brings additional evidence on responsive and proactive strategic orientations, which are now gaining much attention in devising responsive and proactive survival tactics for the small and medium retailing enterprises which risks being swallowed by the giant retailers especially in Kenya.

The practical implication of this study is provide insight and knowledge to business men in SMREs in areas experiencing market pressures in Thika Sub County in Kenya and generally in other middle class and developing countries, in implementing the concept of strategic orientation in relation to deployment of inherent capabilities for superior performance. Lastly, is that business men/women as leaders in the future should drive the implementation of responsive customer, proactive customer, responsive competitor and proactive competitor orientations to improve above average performance.

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Appendices

Appendix 1: Introduction Letter

Dear respondent,

My name is Grace Wangari Kiiru a Doctoral Student from Jomo Kenyatta University of Agriculture and Technology. I'm conducting an academic research, the objective of the study being to effect of an enterprise strategic orientation on the deployment of dynamic capabilities for competitive advantage of the retail SMEs, given the prevailing business environment in Kenya.

I have randomly selected your enterprise to participate in this study. Your answers should reflect only your perception and experience of the inherent dynamic capabilities within the SMEs and how they influence their competitive position given Kenya's business environment. The information obtained during this study will be treated with utmost confidentiality and neither your name nor the name of your business will be used in any document based on this study.

Thanks in advance for your willingness to generously contribute to this research.

Yours truly,

Grace, W. Kiiru

Appendix 2: Research Questionnaire

Name of the business---

Location---

Contact of the respondent---

Part 1: Demographic Information

1. Gender of the respondent [ ] male [ ] female
2. Religion (tick [ ]appropriately)

[ ] Christian [ ] Muslim [ ] Hindu [ ] none-religious [ ] others (specify) ---------------

[ ] protestant

[ ] Pentecostal

[ ] catholic

[ ] SDA

3. What is your last academic certificate attained? --
4. In which year was your business established? --
5. What is the legal structure of your business?
   - [ ] Private enterprise
   - [ ] Partnership
   - [ ] Family business
   - [ ] Sole proprietorship
   - [ ] others (specify) ---
6. In terms of percentage, describe the nature of your business ownership [ ] local [ ] foreign
7. Would you say your business is managed by,

[ ] Management solely by the owner

[ ] Board of directors

[ ] Chain branch retailers

[ ] others (specify) ---

Part 2: Dynamic Capabilities

As the manager/owner of this enterprise, rate the extent to which your enterprise's sensing capabilities are descriptive of their influence on the enterprises competitive position. (Make a tick **(√)** in the appropriate block. **SD-Strongly disagree**

D-Disagree
N-Neutral
A-Agree
SA-Strongly agree

Sensing capabilities

	Elements	**SD**	**D**	**N**	**A**	**SA**
1	We are very slow to detect fundamental shifts in our industry (such as; competition, new entrants, new customers trends).					
2	We very frequently review the likely effect of changes in our business environment on customers					
3	We quickly understand new opportunities to serve our customers better than our competitors.					
4	We are very good in observing and anticipating market and customer trends.					
5	We regularly check the quality of our operational capabilities in comparison with competition.					
6	We regularly check the quality of our operational capabilities in comparison with our competitors in the same industry					
7	We pay a great attention on monitoring the change of operational capabilities					
8	After changing existing capabilities or integrating new capabilities, we pay a great attention on monitoring the efficiency of our new processes.					
9	We have NOT put feedback measures to assess customer satisfaction systematically and frequently					
10	We use established processes to identify target market segments, changing customer needs and customer innovation					
11	We observe best practices of product and service delivery to our customers					
12	We rarely attend business forums that discusses the changing trends within our business operational environment					

13. Please state **two** other key strategies your business uses in gathering information regarding the changing competition and customer trends within our sector

(i) --

(ii) --

Seizing capabilities

In my/our business;

SD-Strongly disagree
D-Disagree
N-Neutral
A-Agree
SA-Strongly agree

	Elements	SD	D	N	A	SA
1	We frequently acquire knowledge about competitive and market trends from external sources					
2	We are able to identify and acquire external knowledge (such as; market, customer trends) very quickly					
3	Our employees rarely attend business forums to learn about new market/customer trends, business strategies which we quickly implement.					
4	Existing information (such as; market or environment) is readily available to our business enterprise					
5	We have formal no systems of circulating new information about the market trends in form of documents (e.g., reports, newsletters) to update everyone within the business					
6	When something important happens (market or strategy development), the whole business enterprise knows about it but after a longer period					
7	Our employees have the capabilities to produce many novel and useful ideas					
8	Within this business, we have the capabilities successfully to learn new things.					
9	We have the capabilities to effectively develop new knowledge or insights that have the potential to influence our competitive position					
10	Our flexible structure makes us respond to market dynamics quickly before our competitors do					
11	We have a data bank for all our customers with an intention of finding solutions for our customers within a short period of time					
12	We respond to defects pointed out by employees					
13	We change our practices when customer feedback gives us a reason to change.					

14 Based on the changing competition and customer trends within your business sector, list any other **two** key steps you have taken in response to increasing your competition hedge against others within the industry

(i) ---

(ii)--

Reconfiguration capabilities

How often have you carried out the following activities over the last 3-5 years?

N-Never
LO-Less often
O-Often
MO-More often
VO-Very often

	Elements	N	LO	O	MO	VO
1	Transformed existing resources into new capabilities (such as; new product offering, new services delivery systems).					
2	Introduced new perceptible changes that lie outside the existing features of existing capabilities.					
3	Identified valuable capability elements to connect and combine them in new ways.					
4	effectively recombined existing capabilities into 'novel' combinations					
5	Changed the strategic strategies					
6	Integrated new externally sourced capabilities and combined them with existing capabilities into 'novel' combinations.					
7	Substantially renewed of our business processes					
8	Substantially changed ways of achieving our targets and objectives					
9	Implemented new kinds of management methods that are currently more responsive within our business processes					
10	Boldness in our efforts to maximize the probability of exploiting opportunities than our competitors					

11. Which of the following industry characteristics do you consider to be the **three** most critical threats to the future of your business

[ ] the business's current location as compared to that of my competitors
[ ] Rapid customer dynamics
[ ] Our power to respond to the market dynamics
[ ] The threat of market saturation by many similar retailers
[ ] The threat of entry by large retailers
[ ] others (specify) ---

12. Give any other **two** main strategies of how your business intend to cope with the above areas of main threat

(i)---
(ii)--

Part 3: Strategic Orientation

Based on your strategic orientation towards the deployment of the dynamic capabilities, rate the orientation that is best descriptive of such orientation in influencing your enterprises competitive position. (Make a tick (√) in the appropriate block)

SD-Strongly disagree
D-Disagree
N-Neutral
A-Agree
SA-Strongly agree

	Elements	SD	D	N	A	SA
1	All of our business functions are integrated in serving the needs of our specific target markets not targeted by our competitors					
2	Anything that our competitor can offer, we can match Readily					
3	Our business objectives are driven primarily by customer satisfaction					
4	Our strategies are driven by beliefs about how we can create greater value for customers					
5	Our strategy for competitive advantage is based on our understanding of competitors actions					
6	The new products or services we constantly introduce are based on the constant feedback we obtain from our customers depending on their changing needs					
7	We are very fast to introduce new products and services to the marketplace before our competitors do					
8	We are witnessing demand for our products and services from customers who never bought them before.					
9	We constantly monitor our level of commitment and orientation to serving customers" needs					
10	We frequently obtain feedback from our customers about their level of satisfaction with our products/services					
11	We measure customer satisfaction systematically and frequently through our feedback systems					
12	We rapidly respond to competitive actions that threaten us					
13	We regularly meet to discusses competitors' strengths and strategies					
14	We regularly share information concerning latest competitors strategies					
15	We regularly visit our current and prospective competitors to learn their business tactics informally					
16	We target specific customers where we have an opportunity for competitive advantage					

17. Given your orientation towards the dynamics within your sector, highlight **three** main areas of investment that your business has identified as competitive priorities over the last 5 years.

(i)---

(ii)---

(iii)---

Part 4: Competitive Advantage

Using the following statements, please evaluate the following elements at your business over the past THREE years relative to your major competitors in terms of the following criteria. (Make a tick (√) in the appropriate block)

VN-Very negative
N- Negative
M- Moderate
P - Positive
VP- Very positive

		VN	**N**	**M**	**P**	**VP**
1	Percentage of range products/services of total turnover					
2	Time necessary to introduce new generation of products as demanded by our customers					
3	Customer satisfaction					
4	higher market share relative to other competitors in the same industry					
5	Level of cost reductions through improved/more efficient procedures of service delivery					
6	Giving priority to investment in efficient machinery, systems, structures					
7	Strong network with our customers hence greatly reduces advertising costs thus low price offerings regularly					
8	Niche of customer that have positively commended our on product/service					
9	Strict quality control through strict sourcing procedures					
10	Meeting customer needs and delivering value to our customers is our primary goal					
11	Addressing their product requirements through putting in place feedback mechanisms					
12	Often introduce new products first than our competitors					
13	New product/service introduction rate is higher than our competitors					
14	Degree of our product differentiation is higher than our competitors to our niche customers					
15	We respond quickly to the first signals of new business opportunities in the market.					

16. Which of the following aspects do you consider to have been the **three** most critical elements to your business competitiveness over the last 3 – 5 years?
    [ ] The creation of more customers than our competitors
    [ ] Identification of appropriate market niches where no competition exists
    [ ] Identification of customer needs and how best they can be satisfied
    [ ] Renewal of our competitive strategies so that we are always ahead of competitors
    [ ] Understanding of competitors and how direct competition may be avoided
    [ ] Motivation of people to put their efforts and enthusiasm behind the strategic aims of the business
    [ ] Consumer awareness with regard to product quality standards
    [ ] Constant monitoring and obtaining feedback about our customers' needs
17. What has your enterprise most focus on in operating business over the past three years?
    (**tick (√) three**)
    [ ] Increasing domestic market share
    [ ] Increasing sales
    [ ] Increasing profitability
    [ ] Sourcing/management for expertise for competitiveness
    [ ] Steady growth and sustainability
    [ ] Customer satisfaction

Thank you for your precious time to respond to this Questionnaire

Would you like a copy of the findings of this research?
[ ] yes [ ] no

Appendix 3: Normality Test for the Dependent Variable

	N Valid	N Missing	Mean	Std. Error of Mean	Std. Deviation	Skewness	Std. Error of Skewness	Kurtosis	Std. Error of Kurtosis	Min	Max
We respond quickly to the first signals of new business opportunities in the market.	296	4	3.9257	.06986	.84990	-.598	.199	.573	.396	1.00	6.00
Degree of our product differentiation is higher than our competitors to our niche customers	296	4	3.5608	.07441	.90521	-.072	.199	.003	.396	1.00	6.00
New product/service introduction rate is higher than our competitors	282	18	3.3972	.07591	.90142	.075	.204	.059	.406	1.00	6.00
Often introduce new products first than our competitors	294	6	3.4082	.07828	.94908	.073	.200	.155	.397	1.00	6.00
Addressing their product requirements through putting in place feedback mechanisms	290	10	3.9034	.06733	.81073	-.055	.201	.647	.400	1.00	6.00
Meeting customer needs and delivering value to our customers is our primary goal	286	12	4.2727	.06052	.72366	-.506	.203	.801	.403	1.00	6.00
Strict quality control through strict sourcing procedures	296	4	4.1351	.07088	.86228	-.024	.199	-.521	.396	2.00	6.00
Niche of customer that have positively commended our on product/service	292	8	3.7945	.06441	.77831	.157	.201	.517	.399	1.00	6.00
Strong network with our customers hence greatly reduces advertising costs thus low price offerings regularly	296	4	3.7703	.07308	.88905	-.296	.199	-.350	.396	1.00	5.00
Giving priority to investment in efficient machinery, systems, structures	294	6	3.7143	.06894	.83584	.489	.200	.506	.397	1.00	5.00
Level of cost reductions through improved/more efficient procedures of service delivery	294	6	3.7959	.06252	.75796	-.309	.200	-.101	.397	2.00	5.00
Higher market share relative to other competitors in the same industry	278	22	3.4604	.07239	.85352	.231	.206	-.559	.408	2.00	5.00
Customer satisfaction	292	8	4.0822	.05710	.68990	-.236	.201	-.434	.399	2.00	5.00
Time necessary to introduce new generation of products as demanded by our customers	292	8	3.6644	.06320	.76363	.589	.201	-.493	.399	2.00	5.00
Percentage of range products/services of total turnover	288	12	3.5764	.06506	.78071	.011	.202	-.400	.401	2.00	5.00

Appendix 4: General Biodata of Respondents and Enterprise Profile

Gender	Frequency	Valid Per cent	Cumulative Per cent
Female	59	39.9	39.9
Male	89	60.1	100.0
Academic level			
postgraduates	2	1.3	1.3
university graduate	29	23.2	24.5
college diploma	58	43.3	67.8
college certificate	14	10.4	78.2
KCSE certificate	30	22.4	88.6
KCPE certificate	1	.7	89.3
none	16	10.7	100.0
Business age			
< 5 yrs	37	25.9	25.9
5-10yrs	51	35.7	61.6
10-15yrs	34	23.8	85.4
>15 yrs	21	14.6	100.0
Business legal structure			
Private enterprise	36	23.1	23.1
Partnership	25	16.0	39.1
Family business	27	17.3	56.4
Sole proprietorship	59	37.8	94.2
others	8	5.8	100

Appendix 5: List of the Enterprises Registered with Thika Sub County

Act. Code	Business Activity Description	Registered Businesses	Registered MSEs
103	mega store, hypermarket : large	6	
105	large trader, shop, retail store or	55	55
110	medium trader, shop or retail service*	543	543
115	small trader, shop or retail service: upto *	2,323	2,323
120	kiosk light or temporary construction	869	
195	other wholesale - retail traders, stores*	5,680	5,680
205	hawker with motor vehicle : 1 person	11	
210	hawker without motor vehicle : 1 person	408	
215	small informal sector/service	142	
220	semi permanent informal sector trader	139	
295	other informal sector operation	580	
310	medium transport enterprise :from 6 to 30	1	
315	small transport enterprise: form 2 to 5	31	
320	independent transport operator : 1 vehicle	117	
325	large petrol filling station: over 6 pumps	5	
330	medium petrol filling station: 4 to 6	13	
335	small petrol filling station: upto 3 pumps	14	
340	large cold storage facility : over 1,000 m 2	1	
355	large storage facility : up to 1,000m2	5	
360	medium storage facility : form 1,000m2 to	8	
365	small storage facility : up to 1,000m2	25	
375	medium communications Co.: form 16 to	2	
395	other transport, storage and	93	
405	large agricultural	9	
410	medium agricultural	57	
415	small agricultural	266	
425	medium mining or natural resources	2	
430	small mining or natural resources	7	
495	other agricultural , forestry and natural	16	
503	large high-standard lodging house / hotel	1	
506	medium high-standard lodging house / hotel	2	
509	small high-standard lodging house / hotel	2	
512	large lodging house with restaurant	5	
515	medium lodging house with restaurant	15	
518	small lodging house with restaurant	5	
521	large lodging house B/C class : basic	2	
524	medium lodging house B/C class : basic	17	
527	small lodging house B/C class : basic	76	
540	large restaurant with bar/membership	13	
543	medium restaurant with bar/membership	61	

546	small restaurant with bar up to 10	47	
549	large eating house; snack bar; tea house	24	
552	medium eating house; snack bar; tea house	54	
555	small eating house; snack bar; tea house	460	
558	butchery with roasted meta and /or soup	153	
561	large bar/traditional beer seller	9	
564	medium bar/traditional beer seller	10	
567	small bar/traditional beer seller	147	
571	large night club/casino: over 500m2	2	
577	small night club/casino: upto 100m2	3	
595	other catering and accommodation	37	
605	large professional services enterprise: over 10 workers	2	
610	medium professional services enterprise: from 5 workers	10	
615	small professional services enterprise: upto 2 workers	57	
620	independent technical operator : one	24	
625	large financial services: over 25	6	
630	medium financial services: form 6 to 25	19	
635	small financial services: upto 5	29	
695	other professional and technical services	1,139	
705	private higher education institutions : any	6	
710	large private education institutions	30	
715	medium private education institutions	63	
720	small private education facility	143	
725	large private health facility: hospital	1	
730	medium private health facility:	3	
735	small private health facility:	4	
740	health clinic/doctors surgery:	77	
745	traditional health services, herbalists	26	
760	small entertainment facility: upto 50	2	
795	other education, health and entertainment	71	
805	large industrial plant: over 75 employees	10	
810	medium industrial plant: 16 to 75 employees	9	
815	large industrial plant: upto 15 employees	24	
820	large workshop/service-repair	5	
825	medium workshop/service-repair	40	
830	small workshop/service-repair	337	
895	other manufacturer, workshop, factory	48	
	TOTAL	**14,759**	**8,601**