

**INFLUENCE OF STRATEGIC FIRM CAPABILITIES ON  
SYSTEMIC PERFORMANCE OF VENDOR MANAGED  
RETAIL MEDIUM AND LARGE SUPERMARKETS IN  
THE NAIROBI CITY COUNTY IN KENYA**

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**Influence of Strategic Firm Capabilities on Systemic Performance of  
Vendor Managed Retail Medium and Large Supermarkets in the  
Nairobi City County in Kenya**

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**A Thesis Submitted in Partial Fulfillment for the Degree of Doctor of  
Philosophy in Business Administration, (Strategic Management) in the  
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## DECLARATION

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

Signature----- Date -----

**Pilisi Hendrick Nyongesa**

This thesis has been submitted for examination with our approval as the university supervisors.

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**JKUAT, Kenya**

## **DEDICATION**

I dedicate this thesis to the Almighty God for His Grace, wisdom and knowledge upon my life. I dedicate it also to my lovely wife Mercy, children Joshua and Lavi, who have allowed the light to shine upon my life hence this study. To my mother Rispa I say thank you very much and to my late father Laban – Oh! You were a great disciplinarian, who would not reach such heights of academic excellence with your intolerance to nonsense.

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## ACRONYMS

<b>ANOVA</b>	Analysis of variance
<b>ATM</b>	Automated Teller Machine
<b>BSC</b>	Balanced Score Card
<b>CBK</b>	Central Bank of Kenya
<b>DCA</b>	Dynamic Capabilities Approach
<b>DRBV</b>	Dynamic Resource Based View
<b>GDP</b>	Gross Domestic Product
<b>GOK</b>	Government of Kenya
<b>ICT</b>	Information and Communication Technology
<b>JKUAT</b>	Jomo Kenyatta University of Agriculture and Technology
<b>KBV</b>	Knowledge Based View
<b>KM</b>	Knowledge Management
<b>KMPI</b>	Knowledge Management Performance Index
<b>KMS</b>	Knowledge Management Strategies
<b>KPMC</b>	Knowledge Management Process Capability
<b>MSP</b>	Mobile Service Provider
<b>PBGs</b>	Producer Business Groups

<b>R&amp;D</b>	Research and Development
<b>RBV</b>	Resource Based View
<b>SERVQUAL</b>	Service Quality
<b>SMEs</b>	Small and Medium Enterprises
<b>SPSS</b>	Statistical Package for Social Sciences
<b>SQA</b>	Singapore Quality Award
<b>TQS</b>	Total Quality Service
<b>UAE</b>	United Arab Emirates

## DEFINITION OF TERMS

- Capability:** is a competence or a skill that an organization possesses that enables it to perform activities (Ludwig & Pemberton, 2011).
- Core Competence:** Is a capability or skill that a firm emphasizes and excels in doing while in pursuit of its overall Mission (Pearce II & Robinson, 2011).
- Dynamic Capabilities:** an organization`s ability to renew and recreate its strategic capabilities to meet the needs of changing environments (Johnson, Whittington, & Scholes, 2011)
- Dynamic:** the capacity to renew competences so as to achieve congruence with the changing business environment (Teece, 1997).
- Innovation:** is the ability of a firm to transform an idea into something new which carries an economic value (Calantone, Cavusgil & Zhao, 2002).
- Innovative Capability:** Refers to an organization`s ability to develop new products and or markets through aligning Strategic Innovation Orientations with Innovative behavior and processes (Wang & Ahmed, 2004)
- Learning Culture:** is a collection of organizational conventions, values, practices and processes which enable employees and organizations develop knowledge and competence (Nabong, 2015).

**Population:** is a well-defined or set of people, services, elements, and events, groups of things or households that are being investigated (Ngechu, 2004).

**Product development:** Delivery of modified or new products (tangible or intangible products) to current /existing customers (Johnson, Whittington, & Scholes, 2011).

**Resource- Based View (RBV) of Strategy:** States that Competitive advantage and superior performance of an organization is explained by the distinctiveness of its Capabilities (Johnson, Whittington, & Scholes, 2011).

**Strategic Firm capabilities:** Are the capabilities of an organization that contribute to its long term survival or competitive advantage (Johnson, Whittington & Scholes, 2011).

**Strategic Innovations:** is the ability to create and revitalize the business idea and concept of the company by changing both the market of the company and the competencies and business system of the company (Davila & Robert, 2006).

**Strategic Learning Culture:** Comprises of five main features; systems thinking, personal mastery, mental models, shared vision and team learning. The learning organization concept encourages organizations to shift to a more interconnected way of thinking (Serenko, Bontis & Hardie, 2007).

**Strategic Service Quality:** it is service that corresponds to the customers' expectations and satisfies their needs and requirements (Shaw & Haynes, 2004).

**Strategic Technical Knowledge:** refers to knowledge creation, accumulation, sharing, utilization, and internalization for enhanced productivity, agility, innovation, and reputation (Lee, McEvil & Reagans, 2005).

**Strategy:** A firm`s theory about how to gain competitive advantage (Barney, William & Hesterly, 2015).

**Supermarket:** A very large self-selection shopping outlet that sells broad variety of food, household goods and other products under a single roof, at relatively low prices, ample parking and convenient shopping hours to consumers (Quirk, 2008).

**Systemic Performance:** Refers to whole firm`s performance taken together as a system (Gallus, 2014).

**Vendor Managed Inventory:** Is a business model in which the supplier of the product (Vendor) takes full responsibility for maintaining an agreed inventory of the material at the buyers` consumption location (Sople, V., 2007)

**Vendor:** An individual or company that sells goods or services to someone in the economic production chain (Quirk, 2008).

## **ABSTRACT**

The general objective of this study was to establish the influence of strategic firm capabilities on the systemic performance of vendor managed retail medium and large supermarkets in Nairobi County, Kenya. The specific objectives were: To establish the extent to which strategic innovation adoption capability contributes to performance of the vendor managed retail firms; to determine the extent to which strategic technical knowledge capability contributes to performance of the vendor managed retail firms; to investigate the extent to which strategic quality service capability contributes to performance of the vendor managed retail firms; and to establish the extent to which strategic learning culture capability contributes to performance of the vendor managed retail firms. To achieve these objectives the study adopted a descriptive survey. The target population comprised of five senior managers in the 58 medium and large supermarkets the Nairobi City County. Simple random sampling technique was used to select two (2) management staff from those firms making up a sample size of 116 respondents. Secondary data was obtained from firm records, reports, publications, magazines and books among other reference materials. Primary Data was collected from the sample using a self-administered questionnaire. The collected Data was analyzed by descriptive statistics that included frequencies, percentages, means and standard deviations. IBM SPSS Statistics Version 20 was used to aid in data analysis and the results were presented in form of tables which were used to summarize responses for further analysis and comparison. A multiple linear regression analysis was conducted to establish levels of correlation of the independent variables with the dependent variable. The four independent variables were found to be significant and positively affecting performance of the vendor managed retail firms. The studies therefore recommended for enhanced firm development, adoption and infusion of these strategic capabilities in the vendor managed medium and large supermarkets' operations in order to realize and sustain superior system-wide performance.

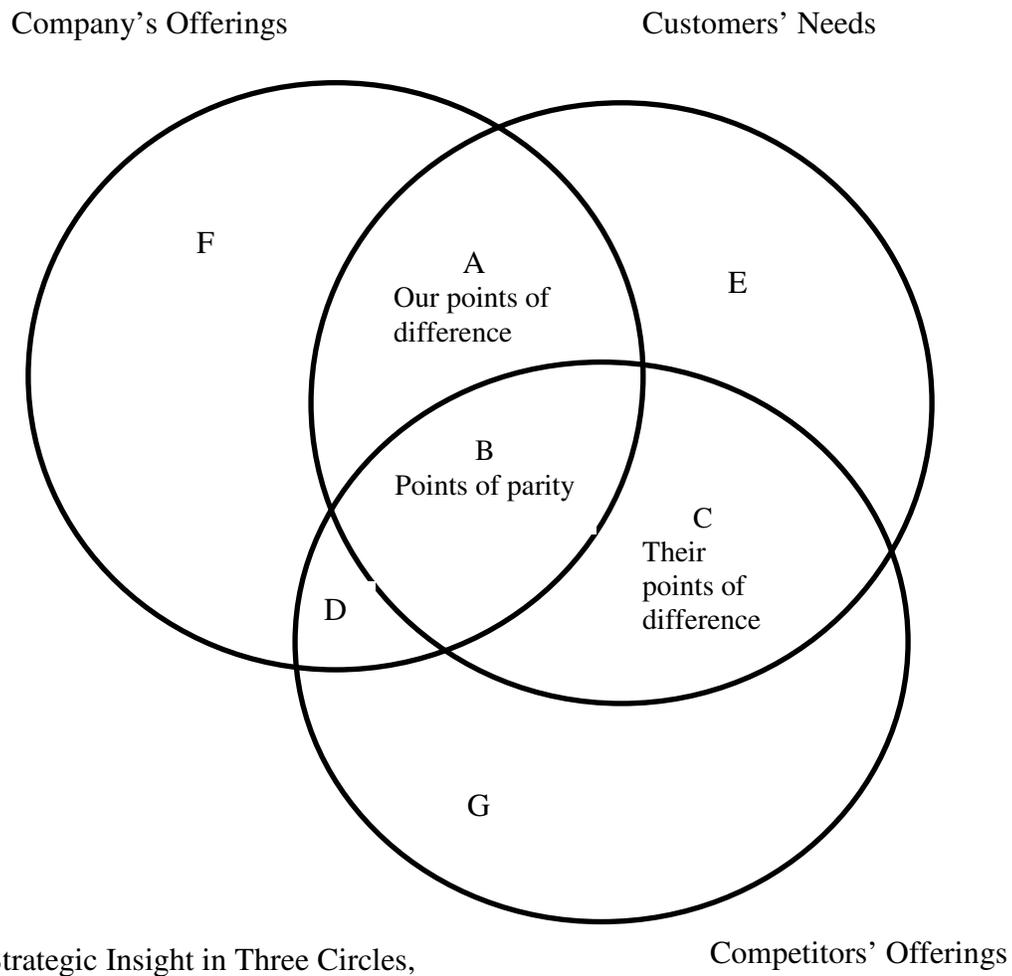
## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background

The Strategic capabilities construct has distinguished itself as a profound and reliable concept in explaining performance variations amongst different sectors, regions and business organizations in the increasingly competitive market. The global players in the telephony industry; Nokia, Sony and Motorola all sought to compete in the same market for mobile phones and develop their businesses within the same technological environment, but ended up with markedly different success levels. Whereas Nokia emerged relatively successful, Sony found it more difficult to compete and Motorola bowed out completely despite being an early innovator in the market. These performance differences were attributed to the differences in the strategic capabilities at disposal of the firms in terms of resources and competences that they had or had tried to develop (Johnson, Whittington & Scholes, 2011). The ability to develop and deploy unique strategic firm capabilities that are superior and or are not available to the competitors therefore serves as prerequisite for superior firm performance.

On the same question pitting strategic firm capabilities against performance variations, University of Notre Dame professors Joel Urbany and James Davis developed a three circles analysis which is an internal analysis technique wherein strategists examine customers` needs, company offerings and competitors` offerings to articulate the company`s competitive advantage and differentiate it from those of competitors (Pearce II & Robinson, 2011). By so doing they fronted the focus on distinctive competence in delivering customer value that could propel the company towards realizing superior performance, countering competition and excelling more effectively in the area of parity in the industry.



(Pearce II & Robinson, 2011; Urbany & Davis, 2007)

**Figure 1.1: Building Competitive Advantage via Customer Value**

The above fig. 1.1 illustrates Competitive Advantage via Customer Value as follows;

Circle A: How big and sustainable are the firm's advantages? Are they based on Distinctive Capabilities?

Circle B: Is the firm delivering effectively in the area of parity?

Circle C: How can the firm counter competitor's advantages?

It is the ability of an organization to build unique and distinctive Competences so as to provide products or services to customers that are superior to competitor's offerings that become the basis of a lasting competitive advantage (Pearce II & Robinson, 2011). These are the unique capabilities that are of value to customers and which competitors find difficult to imitate. Hamel and Prahalad, front a bundle of constituent skills and technologies which they call core competences to signify linked set of skills, activities and resources that together deliver customer value, differentiate a business from competitors and are capable of being developed (Johnson, Whittington & Scholes, 2011). With such set of capabilities in place, it is possible for a firm to build a sustained competitive advantage and realize superior performance besides obviating and excelling over imminent competition in the industry and overcome rapid business challenges of the increasingly sophisticated consumer demands in the highly segmented customer markets and also in emerging economies ( Goworek & McGoldrick, 2015)

The retail sector is part of the distribution sector (wholesale and retail) that provides a crucial and dynamically evolving link between the producers and consumers. The sector typically offers substantial contribution to economic-wide employment and frequently provides significant contribution to business activity and GDP (Wringley & Lowe, 2010). According to the Delloite report on the growth of the global retail sector in 2012, the global retail industry continued to grow by building on the rebound in growth that started in 2010 (Delloite,2012). Sales-weighted, currency-adjusted retail revenue rose by 5.1% to US\$4.271 trillion for the world's top 250 retailers in fiscal year 2012. Building on 2011 growth of 5.3%, more than 80% of the Top 250 retailers (204 companies) posted an increase in retail revenue, but with most other companies experiencing declining total sales being due to business restructuring rather than a deterioration of their core business (Delloite, 2013).

Wholesales sell goods and services to Retailers who sell to ultimate consumers. The retail sector plays a critical role in the supply chain by connecting production to the points of consumption and by so doing pulling production through the chain to spur the

economy. Retailing, which is responsible for matching the individual demands of consumer with vast quantities of supplies produced by a huge range of manufacturers and service providers, has made a significant contribution to economic prosperity (Dunne, 2010). It has the potential to create more employment opportunities through establishment of retail outlets to meet the multiple consumer needs. Wal-mart has substantially impacted on the American economy. In 2004, Wal-mart raised consumer discretionary income by almost 1% p.a. due to its low prices (Dunne, 2010). It is the firm`s capabilities in adopting and injecting new technological developments in the retail chain that has enabled the Chain to operate at most economical and efficient degrees relative to competitors. Sainbury, formerly the UK`s largest supermarket chain in terms of sales value, having been overtaken by Tesco in 1990s implemented an innovative transformation program to assume back the market leadership position (Baily, Farmer, Crocker, Jessop & Jones, 2015).

In Kenya the wholesale and retail sector remains a strong contributor to the country`s economy having recorded steady growth posting Kes. 131 billion to the nation`s GDP in 2007 rising to kes. 350 billion in 2012 (1<sup>st</sup> MTP, end term Review, Vision 2030). The wholesale and retail sector grew from 4.8% in 2008 to 9% in 2012. The value of exports by the sector increased from Kes. 344.95 billion to Kes. 517.85 billion, representing an increase of 50.12% over the MTP1 period. Nevertheless the imports by the wholesale and retail sector grew from Kes. 770.5 billion 2008 to 1,374.59 billion in 2012 representing an increase of 78.4%, meaning that the balance of trade for the sector grew wider during the MTP 1 period. The key challenges by the GOK in this sector are to put in place strategies that ensure the development of capabilities to ensure continued growth momentum for the sector and the entire economy for the realization of the Kenya Vision 2030 and beyond (GOK, 2012).

According to Diop and Topping (2008), the modern day realities of business severely curtail the ability to increase gross profits through increase in price. The only way to increase gross profits therefore remain on reduction of expenses in the entire supply

chain. By being price sensitive, customers are simply saying that retailers need to be more efficient. According to Porter, competitive advantage can be earned through Cost leadership which translates to lower prices relative to competitors, Differentiation to appeal to customers with special product attributes and Focus to yield superior firm performance (Johnson, Whittington & Scholes, 2011). Writings on boundless sustainable competitive advantage aver that firms can obtain competitive advantage by value creating strategies not simultaneously being implemented by any current competitor. These strategies need to be rare, valuable and non-substitutable.

The Resource Based View (RBV) maintains that organizational capabilities may be a source of superior firm performance and competitive advantage when those capabilities create unique value for customers relative to value created by competitors (Ludwig & Pemberton, 2011). The Strategic firm capabilities, through the Dynamic Capabilities Approach has extended RBV by incorporating the role of the changing environment to assert that those firms that are able to continuously alter their resources and capabilities to improve the firm's fit with the environment will be more likely to achieve competitive advantage, growth, and survival (Helfat, 1997).

Most organizations possess a number of basic capabilities. These basic capabilities are those that enable the organizations to run as businesses. Strategic firm capabilities, above and beyond basic capabilities, have three distinctive characteristics, and these are; they are of value to the customer; they are better than that of the majority of other competitors; and they are difficult to imitate or replicate.

The Strategic capabilities framework, Teece (2009) lined up to explain how and why certain firms build competitive advantage under regimes of rapid change. Thereby, it aimed at filling the research gap of other frameworks that explain how a given competitive advantage may be safeguarded or maintained under stable conditions, but failed to explain how such a competitive advantage was gained in the first place and how it can be sustained under changing conditions. Calanton and Cavusgil (2002) conducted

studies on Learning orientation, firm innovation capability and firm performance of the U.S industries and established that firm innovation capability significantly affects firm performance. Carlucci and Shiuman (2007), conducted a study on Knowledge and established that Knowledge assets are the most important source of competitive advantage and survival of enterprise. They by so doing recommended for firms to invest more in knowledge creation and delivery to facilitate product/ process differentiation and enhance firm performance. Prahalad and Hamel view core competence as the collective learning in the organization, especially how to coordinate diverse production skills and integrate multiple streams of technologies (Barney & Hesterlt, 2015).

The competitive forces approach postulates that competitive advantage stems from valuable positioning within an industry and further from protecting this valuable position against competitors and new entrants (Peteraf & Barney, 2003). The re-source-based perspective postulates that competitive advantage stems from firm-level efficiency advantages based on different bundles of resources and capabilities, which are heterogeneously distributed among firms (Peteraf & Barney, 2003).

Firm specific resource and capability bundles also partly explain the firm's ability to capture valuable market positions (Spanos & Lioukas, 2001). The dynamic capabilities framework, however, attempts to explain how new capabilities can be developed and how novel resource and capability combinations help to attain or sustain competitive advantage under conditions of technological and market changes (Teece, 2009). The strategic capabilities framework thus attempts to provide an answer to the fundamental question, why some firms succeed in competitive environments while others fail (Arend & Bromiley, 2009). Every business needs to possess a certain level of strategic firm capability in order to survive and thrive in a competitive business environment. The type of strategic capability that the company needs at a specific time is determined by the legitimizing forces and the threats or opportunities in the future business environment (Armstrong & Greene, 2007).

Kenya's long term vision as enshrined in Vision 2030 document is to transform the country from its current status into a newly industrializing middle income country providing a high quality of life to all its citizens by the year 2030. The overarching vision, therefore, is "A globally Competitive and Prosperous Nation with a high quality of life by the year 2030". The vision is anchored on three pillars namely Economic, Social and Political pillars. To support the three pillars requires transversal institutional reforms and infrastructure development interventions. To fulfill the vision in its context, there is need for legible strategic capability endowment to steer growth and maintain the momentum for realization of the Kenya vision 2030 and beyond (GOK, 2012).

The vision of Wholesale and Retail Trade sector under vision 2030 is to "Move towards a formal sector that is efficient, multi-tiered, diversified in product range, and innovative". Under this vision, the medium term goal of the retail sector is to stimulate additional Kes 50 billion increase in GDP by; Creating ten district based wholesale hubs, establishing 1,000-1,500 producer business groups (PBGs); building at least 10 formal 'Tier 1' district based retail market places, Increasing formal market (supermarkets) share from 5 percent to 30 percent, attracting at least three new retailers with 10 or more stores each and creating one free trade port in Mombasa in a strategy dubbed 'bringing Dubai to Kenya'. Supermarkets currently control approximately five per cent of the retail sector business in Kenya (GOK, 2013). This is ordinarily a very ambitious vision. The question is on whether each of these sectors has the strategic capabilities necessary to deliver.

## **1.2 Statement of the Problem**

Strategic firm capabilities are vital for a business enterprise to earn sustained competitive advantage and ensure superior firm performance. These are the unique capabilities that are of value to customers, rare and which competitors find difficult to imitate. It is the ability of an organization to build these unique and distinctive Competences so as to provide products or services to customers that are superior to

competitor's offerings that become the basis of a lasting competitive advantage (Pearce II & Robinson, 2011).. Prahalad and Hamel view core competence as the collective learning in the organization, especially how to coordinate diverse production skills and integrate multiple streams of technologies (Barney & Hesterlt, 2015).

The global retail industry continued to grow, building on the rebound in growth that started in 2010. More than 80% of the Top 250 retailers (204 companies) posted an increase in retail revenue. Sales-weighted, currency-adjusted retail revenue rose by 5.1% to US\$4.271 trillion for the world's top 250 retailers in fiscal year 2012. However, many other companies experienced decline in profitability and growth (Delloite, 2012). The report did not however provide explanation for these business behaviors in the retail sector. It is therefore necessary to establish the strengths behind these business successes and or otherwise hence a probe on the strategic firm capabilities.

In the year 2006, the focus of Kenya's development blueprint shifted to a long term highly ambitious Vision 2030 in which the Retail sector was tasked with the medium term goal of stimulating additional Kshs 50 billion increase in GDP annually (G.O.K, 2006).But the challenges which were identified by the GOK in this sector revolved around putting in place strategies that ensure the development of capabilities to boost and ensure continued growth momentum for the sector to realize the objective (GOK, 2012).There arose a need therefore to establish empirically the levels at which Strategic firm capabilities have been developed and operationalized in the Kenyan retail context and the effect thereof since they were already a matter of policy.

The modern day realities of business demand for application of creative approaches that guarantee competitive advantage for sustained profitability as opposed to through increase in prices (Diop & Topping, 2008). Writings on boundless sustainable competitive advantage aver that firms can obtain competitive advantage by value creating strategies not simultaneously being implemented by any current competitor. With new market and government policy needs in the Kenyan retail sector, it

necessitated for employment of non-ordinary measures to assume and sustain superior performance, hence the requirement for the building of core competences in the sector.

On their part, Calantone, Cavusgil and Zhao (2002) conducted studies on 400 vice presidents of research and development of U.S industries, drawn from Corptech Directory of Technology to establish the influence of firm innovativeness and performance. The results indicated that firm innovativeness significantly affects performance. Calanton and Cavusgil (2002), further conducted studies on learning orientation, firm innovation capability and firm performance of U.S industries and established that firm innovative capability significantly affects firm performance. However they did not establish the direct relationship of learning orientation on performance.

The Kenya vision 2030 recognized deficiencies in the current stock of Human capital and stressed the need to create a knowledge led economy wherein the creation, adaptation and use of knowledge would be among the most critical factors for rapid economic development (G.O.K, 2012).The ability to create new knowledge is often at the heart of the organization`s competitive advantage (Wellman, 2009). The importance of knowledge has been highlighted by both academics and practitioners as a fundamental basis of competition particularly tacit knowledge which can be a source of competitive advantage because it is unique, imperfectly mobile imperfectly imitable and non-substitutable (Wu & Lin, 2009). Notwithstanding the contribution and emphasis of knowledge on performance, no studies have been conducted to establish the actual influence of knowledge on performance, more-so with respect to the retail sector.

In another effort to address firm performance at a more strategic level, Fitzgerald et al,1992 distinguished performance in terms of financial and market competitiveness as a function of Service quality, Flexibility, Resource utilization and Innovation (Baily, Farmer, Crocker, Jessop & Jones, 2015). But this attempt did not explain how and to what extend these variables individually and jointly affected firm performance.

There exists a gap in literature on the development and utilization of strategic firm capabilities and their influence on competitiveness and performance of the Kenyan retail sector. According to the business news daily, retail giants like Uchumi and Nakumatt are hardly surviving in the local market, but foreign outlets like Gallitos and KFC are continually gaining ground. This study therefore sought to address the gaps in the literature reviewed by answering the research question; what are the strategic firm capabilities that drive the retail sector and to what extent do they influence systemic performance of the vendor managed retail medium and large supermarkets in the Nairobi City County in Kenya?

### **1.3 Objectives of the study**

#### **1.3.1 General Objective**

The general objective of this study was to determine the influence of strategic firm capabilities on the systemic performance of vendor managed medium and large retail supermarkets in Kenya.

#### **1.3.2 Specific Objectives**

The following were the specific objectives of this study;

1. To establish the influence of strategic innovations capability on the systemic performance of the vendor managed medium and large retail supermarkets
2. To determine the influence of strategic technical knowledge capability on systemic performance of the vendor managed medium and large retail supermarkets.
3. To investigate the influence of strategic service quality capability on systemic performance of vendor managed medium and large retail supermarkets
4. To establish the influence of strategic learning culture capability on the systemic performance of the vendor managed medium and large retail supermarkets.

## 1.4 Research Questions

The study aimed at answering the following research questions;

1. To what extent does strategic innovation capability contribute to systemic performance of vendor managed retail medium and large supermarkets?
2. To what extent does strategic technical knowledge capability contribute to systemic performance of the vendor managed retail medium and large supermarkets?
3. To what extent does strategic quality service capability contribute to systemic performance of the vendor managed medium and large retail supermarkets?
4. To what extent does strategic learning culture capability contribute to systemic performance of the vendor managed medium and large retail supermarkets?

## 1.5 Research Hypotheses

The study tested the following null hypotheses;

1. **Null hypothesis One** ( $H_{01}: \beta_{j1} = 0$ ): Strategic firm innovations capability does not significantly affect firm performance of vendor managed medium and large retail supermarkets

**Alternative hypothesis one** ( $H_1: \beta_{j1} \neq 0$ ): Strategic firm innovations capability significantly affects firm performance of vendor managed medium and large retail supermarkets

2. **Null hypothesis Two** ( $H_{02}: \beta_{j2} = 0$ ): Strategic technical knowledge capability does not significantly contribute to firm performance in vendor managed medium and large retail supermarkets

**Alternative hypothesis Two** ( $H_{02}: \beta_{j2} \neq 0$ ): Strategic technical knowledge capability significantly contributes to firm performance in vendor managed medium and large retail supermarkets

3. **Null hypothesis Three** ( $H_{03}: \beta_{j3} = 0$ ): Strategic service quality capability does not significantly influence firm performance of vendor managed medium and large retail supermarkets.

**Alternative hypothesis Three** ( $H_{03}: \beta_{j3} \neq 0$ ): Strategic service quality capability significantly influences firm performance of vendor managed medium and large retail supermarkets.

4. **Null hypothesis Four** ( $H_{04}: \beta_{j4} = 0$ ): Strategic learning culture capability does not significantly contribute to performance of the vendor managed medium and large retail supermarkets

**Alternative hypothesis Four** ( $H_{04}: \beta_{j4} \neq 0$ ): Strategic learning culture capability significantly contributes to performance of the vendor managed medium and large retail supermarkets

## **1.6 Significance of the Study**

This study is significant to the researcher, research and academic institutions, supermarkets and other retail sector, the society and the government of Kenya mainly for the following reasons;

### **1.6.1 Researchers**

To other researchers, the findings of this study form basis for reference in future studies. In addition, the study has recommended areas for further studies that if pursued by scholars will generate more knowledge in the field of strategic management. This study also enables the researchers to understand more on the contribution of strategic capabilities to Vision 2030 realization and the entire retail industry.

### **1.6.2 Retail Sector**

Vendor managed firms in the retail sector can now access an opportunity to know more about how their strategic capabilities are relevant contributing factors to their performance and that of the sector as a whole. Further, they are now more endowed with the ability to develop and engineer their strategic capabilities for enhanced competitive advantage, profitability and business growth. In addition, because of this study, vendor managed firms have now been enabled to understand their role in realization of goals of Kenya Vision 2030.

### **1.6.3 Policy Makers**

As the principal driver of Kenya Vision 2030, the Government of Kenya stands to benefit from the research findings as this rich load of information has been made available on this subject matter to inform policy formulation and review. This information can be used for decision making purposes and making regulations in the retail sector in an attempt to develop empowerment models, strategies and tools for successful attainment of Vision 2030 and beyond.

#### **1.6.4 The Society**

The study focused on establishing the relationship between strategic capabilities and firm performance in the retail sector in Kenya because an understanding on how strategic capabilities can be engineered to harness competitive advantage and enhance growth and profitability in the retail sector is necessary to achieve the goals of Kenya Vision 2030. Further, with strategic capability endowments in place, the retail sector will attain competitive advantage against internal and external odds and support the desired growth. The competitive retail sector is expected to create and enhance customer value through cost effective pricing, quality and availability besides taming external competition. The sector is expected to assume more formal structures, provide better and reliable employment opportunities and enhance tax revenue to the government.

#### **1.7 Scope of the Study**

This study was confined to the retail sector. This sector is one of the flagship sectors of Kenya Vision 2030 which aims at expanding formal market outreach. The focus on medium and large supermarkets in Nairobi Kenya was due to their significant role as stakeholders in the retail sector. The critical importance of retail sector is underpinned by the Kenya Vision 2030 whose objective is to create at least 10 wholesale hubs to improve the supply chain of small operator retail markets. This is directed towards an expansion of the formal market outreach. The focus of this study was in the Nairobi city county owing to the large concentration of retail firms therein operating in stiff, competitive and constrained market in the place with high overheads and other conflicting interests among diverse regulatory agencies. The study findings will therefore help in promoting the entire retail sector by addressing these challenges.

## **1.8 Limitations of the Study**

The research relied on self-reported data from the top managers in vendor managed medium and large supermarkets in Nairobi. This means that the study participants could have overrated themselves because, as Webster, Iannucci and Romney (2002) established, respondents tend to overrate themselves on positive traits. In addition to this, Prince, Hamel, and Tremblay (2008) noted that relying on self-reported data exposes the study to challenges such as selective memory, exaggeration, telescoping, and attribution, which may affect the validity of findings. Since there was no independent way of validating the data from these informants, the validity of findings was dependent on their memory and truthfulness. In anticipation of this limitation, the researcher identified strategies for encouraging truthfulness including guaranteeing anonymity and privacy of participants. Another limitation was that some of the study participants did not understand the purpose for their participation in the research and were therefore reluctant to take part. This was resolved by the researcher's candid explanation that the study intended to establish the influence of strategic firm capabilities on systemic performance of vendor managed medium and large supermarkets within Nairobi City County and their selection among participants was through random sampling.

Additionally, some respondents did not seem to understand the subject under consideration. It looked quite new and this posed the challenge of obtaining illegible responses. This was however solved by conducting a pilot study that helped in gauging the understanding capability of the respondents and review of the questions in the questionnaires to enhance validity and reliability.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

Studies have already been attempted by previous researchers on strategic firm capabilities and the resultant effect on firm performance. This chapter summarizes the findings from other researchers who carried out their research on strategic firm capabilities and critiques the same on content and scope that informed on the areas of deficits. The chapter contains a theoretical review, empirical review, conceptual framework, critical review and summary which ultimately identified gaps that formed justification to pursue this study.

#### **2.2 Theoretical Framework**

The ability of an organization to build unique and distinctive Competences so as to provide products or services to customers that are superior to competitor's offerings become the basis of a lasting competitive advantage (Pearce II & Robinson, 2011). These are the unique capabilities that are of value to customers and which competitors find difficult to imitate. Teece (2009) observed that RBV did not provide explanations as to how some successful firms demonstrated ` timely responsiveness and rapid and flexible product innovation, along with management capability to effectively coordinate and redeploy internal and external competences to boost and sustain high performance. They viewed dynamic capabilities as a firm's ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments' to enable firms earn above normal returns and sustain superior performance over long term(Teece, 2009). His work lays blueprint on developing organizational capacity to sense, shape and seize opportunities that maintain competitiveness through enhancing, combining, protecting and reconfiguring tangible and intangible assets for superior performance (McRitchie, 2013).

This study was therefore guided by the following theories which focus on the mechanisms by which firms learn and accumulate new skills, capabilities and the ability and need of the firm to reconfigure its resources to enable the firm to change evolve and attain high performance levels.

### **2.2.1 Resource Based View**

The resource based view is a method of analyzing and identifying a firm's strategic advantages based on examining its distinct combination of assets, skills, capabilities and intangibles as an organization ((Pearce II & Robinson, 2011). It sees resources as key to superior firm performance. If resources exhibit VRIO attributes, the resources enable the firm to gain and sustain competitive advantage (.The Resource based view as a basis for competitive advantage of a firm lies primarily in application of a bundle of valuable tangible or intangible resources at the firm's disposal (Mwailu & Mercer,1983). Scholars invoking the resource-based view (RBV) have examined such issues as competitive imitation, informational asymmetries, causal ambiguities, and the resource accumulation process (King, 2007; Sirmon, Hitt & Ireland, 2007). The nature of competitive advantage also enjoys a renewed prominence within the RBV (Rijamampianina, Abratt &Yumiko, 2003). Accepting the transitory nature of resources that lead to competitive advantage is a key concern for the RBV (Sheehan & Foss, 2007).

The increasing pace of change and the notion of ephemeral competitive advantage have led to the development of firm capability positioning models (Chung, Chan & Leung., 2006). Such models do not refute the tenets of organizational economics or the RBV, but challenge static assumptions in favor of more flexible and adaptive approaches, especially where success depends on a constant flow of new offerings (Selsky, Goes & Baburoglu, 2007). Dynamic capabilities refer to the ability for an organization to renew and recreate its strategic capabilities to meet the needs of changing environment and

sustain superior performance (Johnson, Whittington & Scholes, 2011).The RBV embraces a firm level of analysis (Levitas & Ndofor, 2006).

Several studies have shed light on this conundrum. McGahan and Porter (1997) found that industry factors accounted for 19 percent of the variance in profitability within specific industry categories, and that the difference varied substantially across industries. Powell (2001) suggested that industry factors account for between 17 and 20 percent of variance in firm performance. Short, Ketchen, Palmer & Hult (2007) conducted an assessment of firms in 12 industries and established that firm-level effects on performance are generally the strongest, but that the strategic group and industry effects are also significant. Teece (1997) observed that well-known companies like IBM, Texas Instruments, Philips, and others appear to have followed a ‘resource based strategy’ of accumulating valuable technology assets, often guarded by an aggressive intellectual property stance. However, this strategy is often not enough to support a significant competitive advantage.

Winners in the global marketplace have been firms that can demonstrate timely responsiveness and rapid and flexible product innovation coupled with the management capability to effectively coordinate and redeploy internal and external competences. Not surprisingly, industry observers have remarked that companies can accumulate a large stock of valuable technology assets and still not have many useful capabilities. Teece (1997) refer to the ability to achieve new forms of competitive advantage as ‘dynamic capabilities to emphasize two key aspects that were not the main focus of attention in previous strategy perspectives- a notion shared by Desarbo, Grewal and Wind (2005).

The terms ‘dynamic refers to the capacity to renew competences so as to achieve congruence with the changing business environment; certain innovative responses are required when time to market and the timing are critical , the rate of technological change is rapid and the nature of future competition and markets difficult to determine. The term ‘capabilities’ emphasizes the key role of strategic management in appropriately

adapting, integrating, and reconfiguring internal and external organizational skills, resources, and functional competences to match the requirements of a changing environment.

The notion that competitive advantage requires both the exploitation of existing internal and external firm-specific capabilities and developing new ones is partially developed in Penrose (1959), Teece (1982) and Wenerfelt (1984). However, only recently have researchers begun to focus on the specifics on how some organizations first develop firm-specific capabilities and how they renew competences to respond to shifts in the business environment. The dynamic capabilities approach seeks to provide a coherent framework which can both integrate existing conceptual and empirical knowledge, and facilitate prescription.

The firm's processes and positions collectively encompass its competences and capabilities. A hierarchy of competences/capabilities ought to be recognized, as some competences may be on the factory floor, some in the R & D labs, some in the executive suites, and some in the way everything is integrated. A difficult-to-replicate or difficult-to-imitate competence was defined earlier as a distinctive competence. As indicated, the key feature of distinctive competence is that there is not a market for it, except possibly through the market for business units. Hence competences and capabilities are intriguing assets as they typically must be built because they cannot be bought (Teece, 1997). Change is costly and so firms must develop processes to minimize low pay-off change. The ability to calibrate the requirements for change and to effectuate the necessary adjustments would appear to depend on the ability to scan the environment, to evaluate markets and competitors, and to quickly accomplish reconfiguration and transformation ahead of competition.

The notion of strategic capabilities is conceptually linked to the RBV, as both perspectives emphasize the development of idiosyncratic aptitudes that cannot be readily mimicked by competitors. Scholars following the dynamic resource based view (DRBV)

or dynamic capabilities approach (DCA) view resources as transitory, typically following a lifecycle behavior spanning emergence through various stages including growth, renewal, and eventual retirement (Helfat & Peteraf, 2003). Scholars from the organizational economics perspective – integrating perspectives such as agency theory, incentives, transaction costs theory, and even property rights theory have utilized IO-based tools to examine performance at the firm level of analysis (Boxall & Gilbert, 2007).

### **2.2.2 Knowledge-Based Theory**

According to the knowledge-based view, innovative knowledge is what companies require to dominate an industry (Malik & Malik, 2008). The knowledge-based view considers a firm to be a “distributed knowledge system” composed of knowledge-holding employees, and this view holds that the firm's role is to coordinate the work of those employees so that they can create knowledge and value for the firm. (Carlucci, 2004), claim that “knowledge assets are as important for competitive advantage and survival, if not more important, than physical and financial assets”.

Barney observed that knowledge and capabilities-based views in strategy have largely extended resource-based reasoning by suggesting that knowledge is the primary resource underlying new value creation, heterogeneity, and competitive advantage (as cited by Felin and Hesterly (2007)). Additionally both contend that research and practice are replete with empirical and anecdotal evidence of the primacy of individuals as the locus of knowledge and source of new value. An organizational capability (Tsai, Li, Tsai & Lin, 2012) is often established by a bundle of related knowledge which include knowledge items and the range of such items.

Knowledge-based view considers knowledge as the most important source for firms’ competitive advantage (Feng, Chen & Liou, 2005). Grant argues that knowledge is a crucial resource of firm’s strategies, and stresses the origin of competitive advantage as

the integration of a bundle of knowledge rather than individual knowledge (as cited by Felin & Hesterly, 2007). Additionally, Knowledge aids firms in strategic development of products and markets and provides an alternative way of achieving differentiation and competitive advantage.

KBV has facilitated a shift from a competitive advantage that is based on market position to one that focuses on firm's capabilities (Felin & Hesterly, 2007). Moreover, the orientation of firm's strategies has also been changed from position-based to capabilities-based. Firms often absorb new knowledge to improve their capabilities from collaborative partners by alliance (Kale & Singh, 2007) or developing effective models (Capron & Mitchell, 2009). Knowledge based view stresses knowledge-based competition.

In summary, the knowledge based view illustrates that firms can differentiate themselves on the basis of their knowledge management strategies. While each of the individual knowledge assets is complex to acquire and difficult to imitate, firms that achieve competitive advantage through knowledge management system have also learned to combine their knowledge assets to effectively create an overall knowledge management capability. This study sought to establish how the knowledge-based view of the firm can explain the heterogeneity in performance of retail firms. The knowledge-based view considers a firm to be a "distributed knowledge system" composed of knowledge-holding employees; the study therefore looked at how strategic knowledge assets lead to competitive advantage, firm's survival and performance.

### **2.2.3 Organizational Learning Theory**

A learning organization is the term given to an organization or a firm that facilitates the learning of its members and continuously transforms itself. Learning organization is one structured around the idea that it should be set up to enable learning, to share knowledge, to seek knowledge and to create opportunities to generate new knowledge. It should

move into new markets to learn about those markets rather than simply bring a brand to it, or find resources to exploit it (Pearce 11 *et al.*, 2011).

Learning organizations develop as a result of the pressures facing modern organizations and enables them to remain competitive in the business environment. A learning organization has five main features; systems thinking, personal mastery, mental models, shared vision and team learning (Serenko, Bontis & Hardie, 2007). The learning organization concept encourages organizations to shift to a more interconnected way of thinking. Organizations should become more like communities that employees can feel a commitment to and therefore will work harder (Serenko *et al.*, 2007). A learning organization benefits through sustenance of high levels innovation and competitiveness, better placed to respond to external pressures, knowledge to better link resources to customer needs, improves quality of output at all levels, improved corporate image by being more people oriented and increase in the pace of change within the organization.

Organizational learning theory states that, in order to be competitive in a changing environment, organizations must change their goals and actions to reach those goals (Janz & Prasarnphanich, 2003). In order for learning to occur, however, the firm must make a conscious decision to change actions in response to a change in circumstances, must consciously link action to outcome, and must remember the outcome. Organizational learning has many similarities to psychology and cognitive research because the initial learning takes place at the individual level: however, it does not become organizational learning until the information is shared, stored in organizational memory in such a way that it may be transmitted and accessed, and used for organizational goals (Cha, Pingry & Thatcher, 2008).

The first part of the learning process involves data acquisition. A firm acquires a “memory” of valid action-outcome links, the environmental conditions under which they are valid, the probabilities of the outcomes, and the uncertainty around that probability. The links are continually updated overtime, either through additions, rejections based on

new evidence, or strengthening/expanding the links from confirmatory evidence. There are many ways to acquire these links, including experiential, experimental, benchmarking, grafting, and so forth, but they must be a conscious effort to discover, confirm, or utilize a cause and effect, or they are simply blind actions relying on chance for success.

A critical point is that firm actions will and must change in response to changes in the environment, as each action-outcome link must be specified in terms of applicable conditions. Successful firms then scan their environment for signs of change, real or anticipated, to determine when change is necessary: this, of course, presupposes that they (a) have learned the important indicators to scan and (b) have learned what degree of change in environmental indicator does or does not require change in actions (Hult, Tomas, Hurly, Giunipero & Nichols, 2000).

The second part of the process is interpretation. Organizations continually compare actual to expected results to update or add to their “memory”. Unexpected results must be assessed for causation, actions adapted or new action-outcome links specified if necessary, and learning increased. This stage does not imply that any action is taken. This is also one of the major debates in this theory: some theorists insist that action is not necessary for learning to have taken place (all that is required is for expansion of the knowledge base or change in understanding) while others insist that unless actions change, there is no learning. Consequently, the third stage is adaptation/action. This is when the firm takes the interpreted knowledge and uses it to select new action-outcome links appropriate to the new environmental conditions. The main point here is that this is a process of continual adaptation to environmental conditions (internal, external, competitors, state of technology, among others) and will be affected to a large extent by the complexity and dynamism the firm experiences.

Once adaptation has occurred, the firm's knowledge base is updated to include the new action-outcome link, probabilities, uncertainty, and applicable conditions and the process continues. This feedback is a continual and iterative process, and occurs at all stages of the process (Serenko *et al.*, 2007).

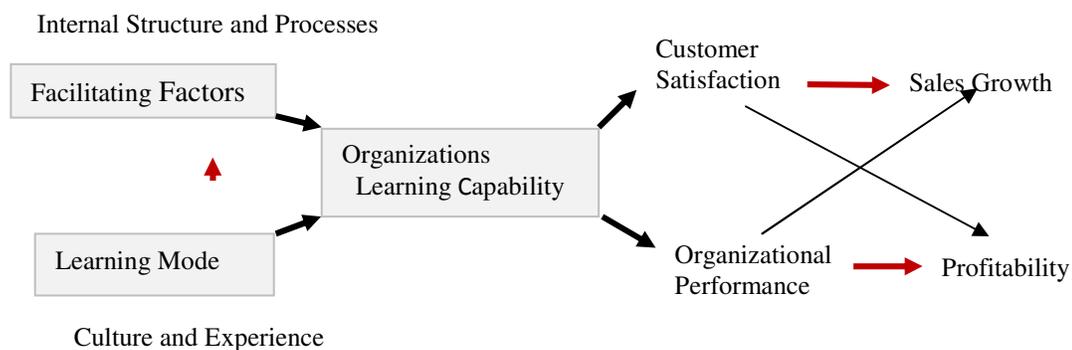
Organizations have experienced many changes to the ways they operate as a result of such factors as the shift to a knowledge economy and the increased streamlining of work activities because of technological innovations (Debowski *et al.*, 2006). Furthermore, the shift in focus from products to services has encouraged greater recognition of the importance of the knowledge held within an organization. Any organization that desires to attain and sustain competitive advantage has to learn better and faster from their successes and failures.

Learning organizations must continuously transform themselves into places where groups and individuals are constantly involved in new learning processes, and therefore, promotes responsible risk taking, being open to new approaches and processes, and viewing employees' mistakes as potential sources of new ideas and ways of doing things (Marquardt, 2011). Employees in a learning organization are responsible for both their own learning as well as the learning of others. In a learning organization, new ideas and information are infused by constantly scanning the external environments, hiring new talent and expertise when needed, and devoting significant resources to train and develop their employees (Kinicki & Kreitner, 2009).

Organizations seek to use a range of authoritative sources, including knowledge held by individual and within knowledge systems maintained by the organization. Explicit knowledge can be documented, categorised, transmitted to others as information, and illustrated to others through demonstrations, explanations and other forms of sharing. However, tacit knowledge is difficult to duplicate, replace or interpret, as it is grounded in a blend of experience, research and induction which may have been refined over many years (Debowski *et al.*, 2006). A learning organization proactively creates,

acquires, and transfers knowledge (Kinicki & Kreitner, 2009). New ideas are a prerequisite for a learning organization; indeed it's on the basis of new knowledge and insights that the organization changes its behaviour.

Strategic knowledge management ensures corporate strategic knowledge grows, learns and matures alongside its individual members. Marquardt (2011) considers the prime task of management in learning organizations as facilitating employees' experimentation and learning from experience enhanced by timely feedback and complete disclosure. Opportunities are created across the entire organization to develop knowledge, skills, and attitudes. The two major contributors to an organizations learning are shown in the model;



**Figure 2.1: Building an Organization's Learning Capability**

Source: Adapted from Kinicki & Kreitner, 2009.

The facilitating factors are the internal structures and processes that affect how easy or otherwise it is for learning to occur and the level of effective learning that takes place. These conditions are most likely found in an organization with a supportive learning environment, concrete learning processes and practices and leadership behaviour that provides reinforcement (Garvin, Edmondson & Gino, 2008). Learning modes are the various ways in which organizations attempt to create and maximise their learning.

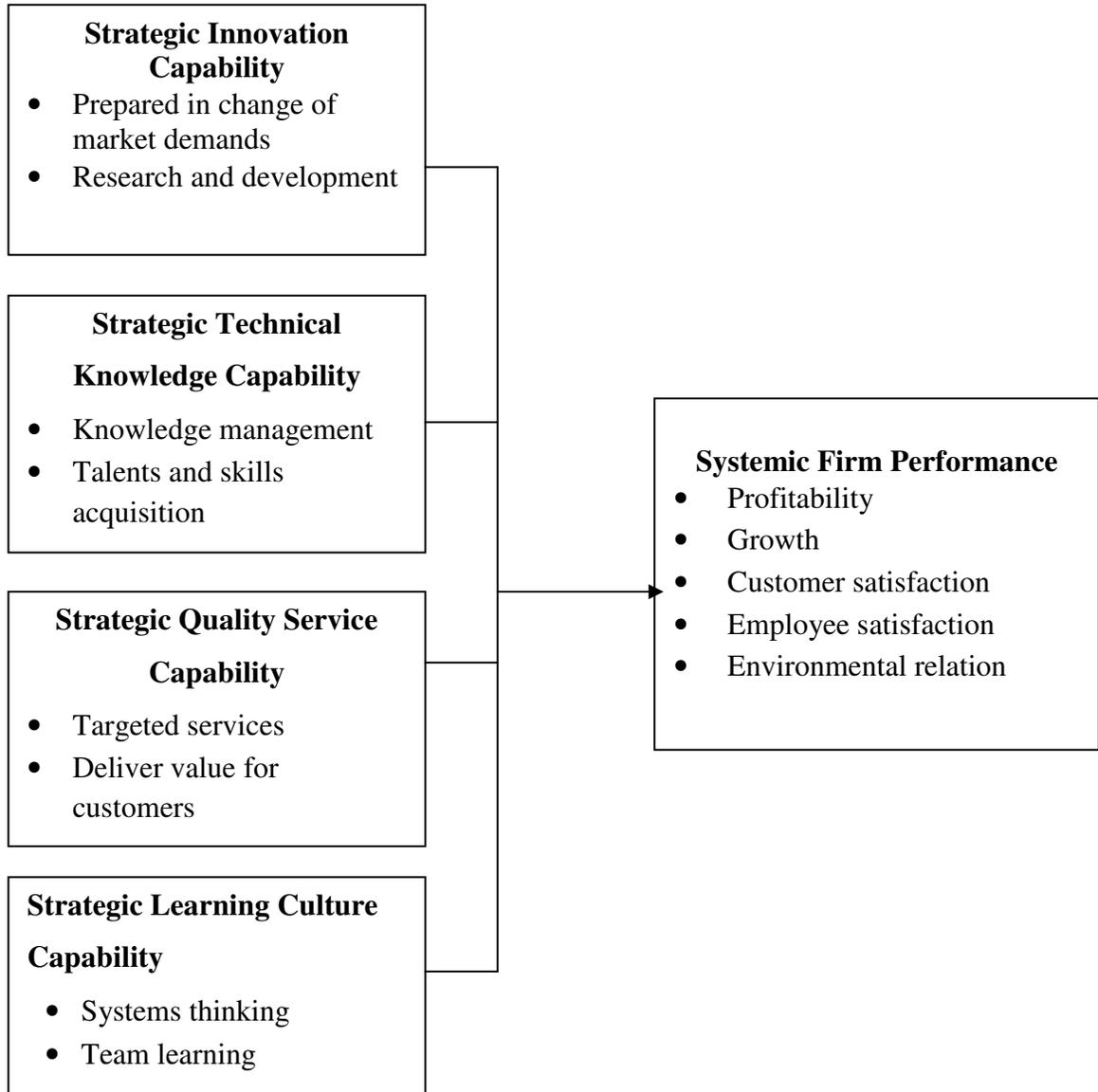
### **2.3 Conceptual Framework**

This study is supported by the conceptual framework which indicates independent variables (strategic innovation capability, strategic technical knowledge capability, strategic quality service capability and strategic learning culture capability) that are presumed to individually and jointly affect the performance of the retail sector in the strategic perspective. Firm Performance of the retail sector as explained by profitability, customer satisfaction, employee satisfaction and growth among others on the other hand forms the Dependent variable. Nevertheless profitability remains principal determinant of firm's performance and the study has accorded it a skewed consideration in assessing firm performance.

Based on the literature review, the following independent variables were identified and formed the subject of the study. All other explanatory variables were considered constant.

1. Strategic Innovation Capability as explained by Preparedness in change of market demands and Research and development.
2. Strategic Technical Knowledge Capability as explained by Knowledge management and Talents and skills acquisition
3. Strategic Service Quality Capability as explained by Targeted services and Delivery of value for customers
4. Strategic Learning Culture Capability as explained by Systems thinking and Team learning

The dependent variable was Systemic Firm Performance as explained by Profitability, Growth, Customer-satisfaction, Employee-satisfaction and Environmental relation. The relationship of the variables is indicated in the conceptual framework below;



**Figure 2.2: Conceptual Framework**

The above figure 2.2 is a conceptual framework of independent variables; Strategic Innovation Capability as explained by Preparedness in change of market demands and Research and development, Strategic Technical Knowledge Capability as explained by Knowledge management and Talents and skills acquisition, Strategic Quality Service Capability as explained by Targeted services and Delivery of value for customers and Strategic Learning Culture Capability as explained by Systems thinking and Team learning against the dependent variable of Systemic Firm Performance as explained by

Profitability, Growth, Customer-satisfaction, Employee-satisfaction and Environmental relations. These independent variables would be tested against the dependent variable to establish the strength and direction of the relationship from the primary data.

## **2.4 Empirical Review of Variables**

This refers to a review of the studies that have been empirically conducted in relation to the research variables for this study. The variables for review included the four independent variables beginning with the strategic innovations capability and subsequently strategic technical knowledge capability, Strategic service quality capability and Strategic learning culture capability to the ultimate in a sequence and finally the dependent variable of firm performance. The review is as follows;

### **2.4.1 Strategic Innovations Capability**

In the light of growing competition and rising costs in an increasingly complex business environment, it is now more important than ever for retailers to create a seamless organization that drives innovation and engage customers. To be competitive and grow, retailers need to be adaptive, constantly learning about their customers and anticipating and flexing to deliver relevant, engaging and useful interactions through rethinking the organization from inside out (Basu, 2017).

Davila and Robert (2006) see strategic innovation as the ability to create and revitalize the business idea and concept of the company by changing both the market of the company and the competencies and business system of the company. In this way, strategic innovation is concerned with developing the entire company. Evidently, organizations need to be more innovative and think proactively in their strategic management. At least, this has rapidly become the mantra of the new decade both among managers and in academia. The well-known work on innovation management and technology management has gained new-found or perhaps re-found respectability and has begun to influence the way we think about strategic management as a discipline

(Davila & Robert, 2006). Innovation is the introduction of new ideas or methods meant to enhance customer value on goods and services to enable the enterprise remain competitive (Bouillon, Doran & Orazem, 2008).

According to Drejer (2002), strategic managers need to consider both strategies for today and tomorrow in order to stay successful over time. This is now the state of the art knowledge within the field of strategic management, following the work of people such as Hamel and Prahalad (1994) acknowledgement of Porter (1996) that strategy needs to consider both operational effectiveness and differentiation. Frame and White (2004) categorized firm innovations into three categories namely: new products and services; new production processes; and new organizational forms.

Driven by the objective of finding out the Factors Influencing Financial Innovation of Companies listed at Nairobi Stock Exchange, Mwangi (2007) conducted a study with aim of explaining the macro and micro-environmental factors influencing financial innovations in Kenya's securities market. He studied a population of all 48 companies listed on the Nairobi Stock Exchange in 2005. The study concluded that Kenyan law protecting investors was the major factor influencing financial innovation. This result is similar to the finding by Frame and White (2004). Further, the research finding showed that unstable forex rates were the most important factor influencing financial innovation among market volatility factors. Mwangi (2007) also observed that the absence of automated trading systems as a technological factor was found to influence financial innovations regularly. Finally he argued that global financial competition and integration had an influence on financial innovation with increased financial competition amongst financial institutions influencing financial innovation the most.

Kamotho (2009) conducted a study on mobile phone banking: usage experiences in Kenya. A focus on the two main dominant mobile banking service providers; Safaricom and Zain, during a three year period 2006-2008 revealed that from inception with total outlets of 8000 agents, this number tripled compared to 876 branches and 1424 ATM for commercial banks (CBK, 2008). Kamotho (2009) concluded that competition triggers innovation and creativity. Continuous innovation not only yields new products but rather promotes efficiency in the performance of activities hence lowering the transaction cost.

Furst, Karen, William and Daniel (2000) analyzed survey data on Internet banking of the third quarter of 1999. Using logit models, they found that a bank's choice of adopting Internet banking is related to the holding company affiliation, location in an urban area, higher fixed expenses, and higher non-interest income. Among banks that offer Internet-related services, a greater number of service offerings were positively related to bank size and the length of time offering Internet banking.

Sullivan (2000) compared banks in the 10<sup>th</sup> Federal Reserve district that had transactional Internet websites as of the first quarter of 2000 to those that did not have such web-sites. He found the former to be significantly larger and located in areas with a more educated population and a higher population fraction in the 18 to 64 age group. Banks offering transactional Internet web-sites are also found to have higher non-interest expenses and higher non-interest income.

#### **2.4.2 Strategic Technical Knowledge Capability**

Wellman (2009) pointed out that the ability to create new knowledge is often at the heart of the organization's competitive advantage. Sometimes this issue is not treated as part of knowledge management since it borders and overlaps with innovation management. Botha, Kourie and Snyman (2008) also emphasized on the importance of shared

experiences in the knowledge creation process when dealing with tacit knowledge, and the need for an environment where these can be formed.

The importance of knowledge has been highlighted by both academics and practitioners (Wu & Lin, 2009). Nowadays, knowledge is the fundamental basis of competition and, in particular, tacit knowledge can be a source of advantage because it is unique, imperfectly mobile, imperfectly imitable and non-substitutable. However, the mere act of processing knowledge itself does not guarantee strategic advantage; instead, knowledge has to be managed. Becerra-Fernandez, Gonzales and Sabherwal (2004) argued that knowledge management can help create knowledge, which can then contribute to improved organization's performance.

Lee and Choi (2003) developed a model that includes seven knowledge management enablers (both social and technical) as being positively related to a firm's knowledge creation processes which, in turn, are positively related to the firm's innovations and its overall performance. Using a 6-point Likert scale, multiple informants from 58 firms were surveyed for their perceptions about their respective firm's status with respect to the enablers, its knowledge creation processes, its innovativeness, and its performance relative to competitors (in terms of perceived market share, profitability, growth rate, and success). They found out that trust is an important enabler of knowledge creation, technology is an enabler of one kind of knowledge creation process, and firm innovativeness is critical for achieving better relative performance.

Lee and Choi (2003) emphasized that knowledge management consists of processes to manage knowledge and enablers (or capabilities) to support these processes. They also argued that knowledge management enablers consist of organizational culture, structure, people, and information technology support. Salina, Wan and Fadzilah, (2008) also suggested that knowledge management processes have a significant relationship with organization's performance.

In a study on Information and Communication Technology (ICT) in banking operations in Nigeria, Agboola (2006) found out that technology was the main driving force of competition in the banking industry. Embracing the proposition that a firm needs strong knowledge management in order to realize a competitive advantage, Liao and Chuang (2006) focused on the extent to which a firm's social and technical knowledge management resources are related to its knowledge management process capabilities, the degree to which these process capabilities (which are exercised in knowledge management initiatives) are related to the firm's speed and magnitude of innovation, and the extent to which these two innovation dimensions are related to firm performance in terms of market share gain, sales growth, profitability, operational efficiency, and service quality.

To investigate these relationships, they conducted a survey for which each respondent gave subjective perceptions on 7-point Likert scales about the levels of his/her respective firm's knowledge management resources, knowledge management process capabilities, innovativeness, and performance relative to competitors. Analysis of the data led the authors to conclude that both social and technical knowledge management resources have significant positive influences on knowledge management process capabilities, and these capabilities have significant positive influences on both innovation dimensions, which, in turn, have significant positive influences on firm performance.

Syed, Ikhsan and Rowland (2004) observed that very few empirical studies have been done on knowledge management and knowledge transfer, and more-so in the developing countries. Daud and Yusoff (2010) studied the mediating role of social capital in the relationship between the correlation of knowledge management and firm performance in SMEs in Malaysia. This study revealed that acquisition of new knowledge helps SMEs to update their collection of knowledge and to compete better in the market. Such firms were found to use their updated knowledge directly to improve their performance. The empirical results of a study by Syed *et al.* (2004) demonstrated no significant

relationship between organizational structure and knowledge transfer performance. However, they noted that management should consider ensuring that information or knowledge is accessible and shared in the organization.

Marques and Simon (2006) studied SMEs in the biotechnology and telecommunication industries and found that knowledge development, transfer and protection improve organization's performance. Syed *et al.* (2004) asserted that creation and transfer of knowledge in an organization has become a critical factor in an organization's success and competitiveness. Many organizations are now concentrating their efforts on how knowledge, particularly tacit knowledge can be transferred across the organization. Syed, Ikhsan and Rowland found that availability of knowledge assets has a direct effect on the performance of knowledge transfer in an organization.

Becheikh, Ziam, Idrissi, Castonguay and Landry, (2012) built on systematic review methodology to examine the knowledge transfer process in education and its main determinants in this specific context. Their findings suggest that linkage agents are central actors in the knowledge transfer process. Their intervention is critical to help adapt the knowledge produced by researchers and make it easier to adopt and use by practitioners. Moreover, the effectiveness of this process hinges on several factors that Becheikh, Ziam, Idrissi, Castonguay and Landry (2012) broke down into three major categories: determinants related to transferred knowledge attributes, those related to the actors involved in the process, and determinants related to transfer mechanisms.

According to the empirical research carried out by Momeni, Monavarian, Shaabani, and Ghasemi (2011), knowledge management process capabilities refers to a higher-order construct which represents knowledge acquisition, knowledge conversion, knowledge application and knowledge protection. The empirical results of their study showed that KMPC positively influence the core competences of the Iranian Automotive Industry.

The study focused on Integrative competencies and Marketing competencies as the most critical dimensions of core competences. The argument made by Mohrman, Finegold and Mohrman, (2003), suggested that organization's performance is improved when organisations create and use knowledge.

The issue of a firm's knowledge management performance is directly addressed by McKeen, Zack and Singh (2006) who conducted a survey to explore whether twelve knowledge management practices are antecedents of organizational performance (in terms of product leadership, customer intimacy, operational excellence) and/or financial performance (relative to other firms in its industry). It is assumed that high degrees of adoption for the twelve knowledge management practices are indicative of high knowledge management performance. Each survey respondent gave perceptions of his/her respective firm's knowledge management practices, organizational performance, and relative financial performance on 5-point Likert scales. Controlling for various contextual influences, analysis of the survey data shows statistically significant positive links between perceptions of high adoption of the knowledge management practices and perceptions of high organizational performance, and between perceptions of high organizational performance and perceptions of strong relative financial performance. There was no statistically significant link evident between perceived knowledge management practice adoption and perceived relative financial performance.

Viewing knowledge management as an organizational capability, Chuang (2004) empirically examined the association between knowledge management capabilities and competitive advantage through a resource-based view of the firm. The author classifies knowledge management resources into two kinds: social knowledge management resources and technical knowledge management resources. Based on the survey data collected from 177 firms, the author finds evidence that greater knowledge management capabilities are significantly associated with greater competitiveness and that social knowledge management resource has a significant impact on competitive advantage.

Arguing that metrics are needed to justify knowledge management initiatives and to assess knowledge management performance, Lee, McEvil and Reagans (2005) proposed a knowledge management performance index (KMPI) defined in terms of a logistic function with five components: knowledge creation, accumulation, sharing, utilization, and internalization. Multiple constructs are advanced to gauge each of these five contributors to KMPI. A cross-sectional survey is used to collect data for each of these constructs, with each firm's KMPI being determined from perceptions provided by that firm's respondent. The data are used to test three hypotheses that assert higher KMPI is associated with "better" stock price, price-earnings ratio, and R&D expenditure. The first two are supported at a 10% significance level, while the third hypothesis is significant at a 5% level.

The knowledge chain theory has been the subject of empirical studies looking for survey-based evidence of linkages between the nine knowledge management activities and the four PAIR approaches to competitiveness (Holsapple & Singh, 2005; Holsapple & Jones, 2007). These studies revealed that every one of the knowledge chain activities can be performed in ways that improve organizational competitiveness, and can do so in each/all of four ways: enhanced productivity, agility, innovation, and reputation. Thus, the authors suggest that each knowledge chain activity deserves to be considered as a candidate for improving firm performance; combinations of these activities may well lead to even more potent or sustainable performance edges.

In a study of large multi-business firms, Tanriverdi (2005) surveyed senior business executives about their respective firms' knowledge management capabilities with respect to complementary product knowledge, customer knowledge, and managerial knowledge. Controlling for such factors as firm size, industry profitability, and risk level, Tanriverdi's analysis of these data concluded that knowledge management capability has a positive effect on firms' return-on-assets and Tobin's q, as calculated from the COMPUSTAT database.

If we assume that high knowledge management capability translates into high knowledge management performance, it follows that this study's result is consistent with the contention that superior knowledge management performance is an antecedent of superior return-on-assets.

### **2.4.3 Strategic Service Quality Capability**

Service quality is the difference between expected service and perceived service (Pai & Chary, 2012). Strategic service quality should correspond to the customers' expectations and satisfy their needs and requirements (Shaw & Haynes, 2004). Ramayah, Samat and Lo (2011) used a descriptive survey design to examine the relationship between market orientation, service quality, and their impact towards organizational performance in Malaysia. They used structured questionnaires to collect data from managers of 101 service organizations in the northern region of Malaysia. The findings revealed that market orientation has a significant effect on organizational performance and service quality. Service quality was also established to have a significant effect on organizational performance. They found that service quality partially mediates the relationship between market orientation and organizational performance (Ramayah, Samat & Lo, 2011).

Vinagre and Neves (2008) developed and empirically tested a model to examine the major factors affecting patients' satisfaction that depict and estimate the relationships between service quality, patient's emotions, expectations and involvement in Portugal. The approach was tested using structural equation modeling, with a sample of 317 patients from six Portuguese public healthcare centers, using a revised SERVQUAL scale for service quality evaluation and an adapted DESII scale for assessing patient emotions. The scales used to evaluate service quality and emotional experience was revealed to be valid.

The results supported process complexity that leads to health service satisfaction, which involves diverse phenomena within the cognitive and emotional domain, revealing that all the predictors have a significant effect on satisfaction (Vinagre & Neves, 2008).

Duggirala, Rajendran and Anantharaman (2008) conducted a descriptive study with an aim to identify dimensions of patient-perceived total quality service (TQS) in the healthcare sector in India. They further investigated the impact of the dimensions of patient-perceived TQS on patient satisfaction. A questionnaire that had been developed based on an extensive literature review of research in service quality and based on responses of the pilot survey among patients recently discharged from hospital was used. Multiple regression analysis was used to examine the impact of the dimensions of patient-perceived quality on patient satisfaction. The study revealed seven distinct dimensions of patient-perceived TQS and the relationships among them. They include infrastructure, personnel quality, processes of clinical care, administrative process, safety indicators, overall experience of medical care and social responsibility. Positive and significant relationships among the dimensions and patient satisfaction were found (Duggirala, Rajandran & Anatharaman, 2008). They presented a different perspective away from the traditional five dimensions SERVQUAL.

Jabnoun and Rasasi (2005) using a descriptive survey investigated the relationship between transformational leadership and service quality in United Arab Emirates hospitals. They first determined the level of satisfaction of patients with the service quality they received. They further analyzed how hospital employees perceived the dimensions of transformational and transactional leadership of their leaders. Finally, the relationship between the dimensions of service quality and those of transformational and transactional leadership was investigated. The study revealed that UAE patients were generally satisfied with the service quality rendered by their hospitals. It however found that hospital employees had a low rating of their leaders in terms of the transformational leadership and contingent reward. Finally, service quality was found to be positively related to all dimension of transformational leadership and the transactional leadership

dimension of contingent reward. The two dimensions of active exception and passive avoidant leadership were negatively related to service quality (Jabnoun & Rasasi, 2005).

Chow-Chua and Goh (2002) noted that there is a need to combine the various models or approaches to performance and quality improvement. They proposed a knowledge-based framework for evaluating the performance of a hospital using a model based on the Singapore Quality Award (SQA) criteria and the balanced scorecard (BSC) approach. To illustrate how the SQA and the BSC can be integrated to help public sector hospitals implement and manage performance-based programs, Chow-Chua and Goh (2002) used a specific case study of a public sector hospital in Singapore. They observed that hospitals can also use this approach to their advantage, yielding sustainable improvement in patient satisfaction and better inter-departmental communication. Through this framework, hospitals can make better quality decisions based on structured measurement and knowledge (Chow-Chua & Goh, 2002).

#### **2.4.4 Strategic Learning Culture Capability**

Nabong, (2015) defines learning culture as a collection of organizational conventions, values, practices and processes which enable employees and organizations develop knowledge and competence. According to Nabong (2015), the benefits of organizational learning culture include; increasing efficiency and productivity, increases employee satisfaction, creates culture of knowledge inquiry and sharing, enhance ability of workers to adapt to change. The suitability of a learning culture therefore promotes knowledge and skill acquisition which facilitates innovativeness potentially leading to long term profitability and performance (Hussan, Mohamad & Ishak, 2014).

In their study on the effects of culture on knowledge management practice, Gan, Ryan and Gururajan (2006) found collaboration, mutual trust, learning, leadership, incentives and rewards to be significant facilitators to knowledge management practice in MSC status companies in Malaysia. After investigating 3,089 companies in Slovenia and

Croatia, Rasula, Vuksic and Stemberger (2012) suggested that organizational change helps an organization to optimize processes and defines process oriented structure as these would help Knowledge Management to be adopted correctly within the organization. Furthermore, effective Knowledge Management cannot be implemented without a significant behavioral and cultural change. There should be a strong culture, trust and transparency in all areas of the organization.

Stevens, (2010) did an exploratory study to examine knowledge transfer strategies within the framework of a multi-generational workforce. He compared differences in workforce generations and examined different methods to pass on knowledge cross-generationally. He concluded that companies must design knowledge transfer strategies conducive to multi-generational workforce dynamics keeping in mind the generational diversity that exists in the workplace.

A joint study conducted by International Business Machines Corporation and the American Society of Training and Development revealed that 60% of respondents utilize mentoring as a method of passing on knowledge, while approximately one-half still use document/heavy repositories as tools for capturing knowledge (Lesser & Rivera, 2006). The study also noted that mentoring is most effective in learn-while-doing scenarios where mentors offer guidance to students in realistic situations they may be encountering. Thus, the one-on-one relationship between the mentor and the mentee helps facilitate the transfer of experiential and tacit knowledge. However, mentoring, a valid experiential and tacit knowledge transfer method is time consuming. Furthermore, the pairing of mentor and mentee is of concern. The mentoring relationship must bridge the generational gap. If the mentoring relationship cannot be established, then knowledge transfer will not occur.

Other forms of knowledge transfer include classroom training led by older workers, fostering learning communities to encourage sharing of learning and experiences between young and older workers, and leveraging multimedia tools, such as audio/video

interviewing and storytelling to preserve significant learning from aging employees (Lesser & Rivera, 2006). These knowledge transfer strategies assume training and development resources. Additionally, organizational culture must be examined since the use of a storytelling and contextually based transfer design may create discomfort. One of the challenges to instructional designers who consider using storytelling and contextually based design techniques is the issue of whether such approaches will be accepted within the culture of the organization. Another challenge in storytelling is credibility. In some instances, workers may feel that they are inappropriate as an approach to knowledge transfer.

## **2.5 Systemic Firm Performance**

The concept of firm performance is core to businesses because the major objective of businesses is to make profits (Mutindi, Namusonge & Obwogi, 2013). Performance is an important concept that is at the center of an organization and its measurement is critical in determining whether the organization is achieving the desired results (Venkatarum & Ramanujan, 1986). Explaining and often predicting organizational performance is a primary research objective in Strategic Management (Neely, 2000). Performance is the ability of an organization to attain its goals by using resources in an effective and efficient manner (Daft, 2000). Nevertheless Systemic performance refers to all organizational performance considered as whole. Whereas Effectiveness is concerned with the unique capabilities that organizations develop to assure achievement of their Missions, efficiency is the cost per unit of output that is much less than the input with no alternative input that can go lower for the same output (Machuki & Aosa, 2011).

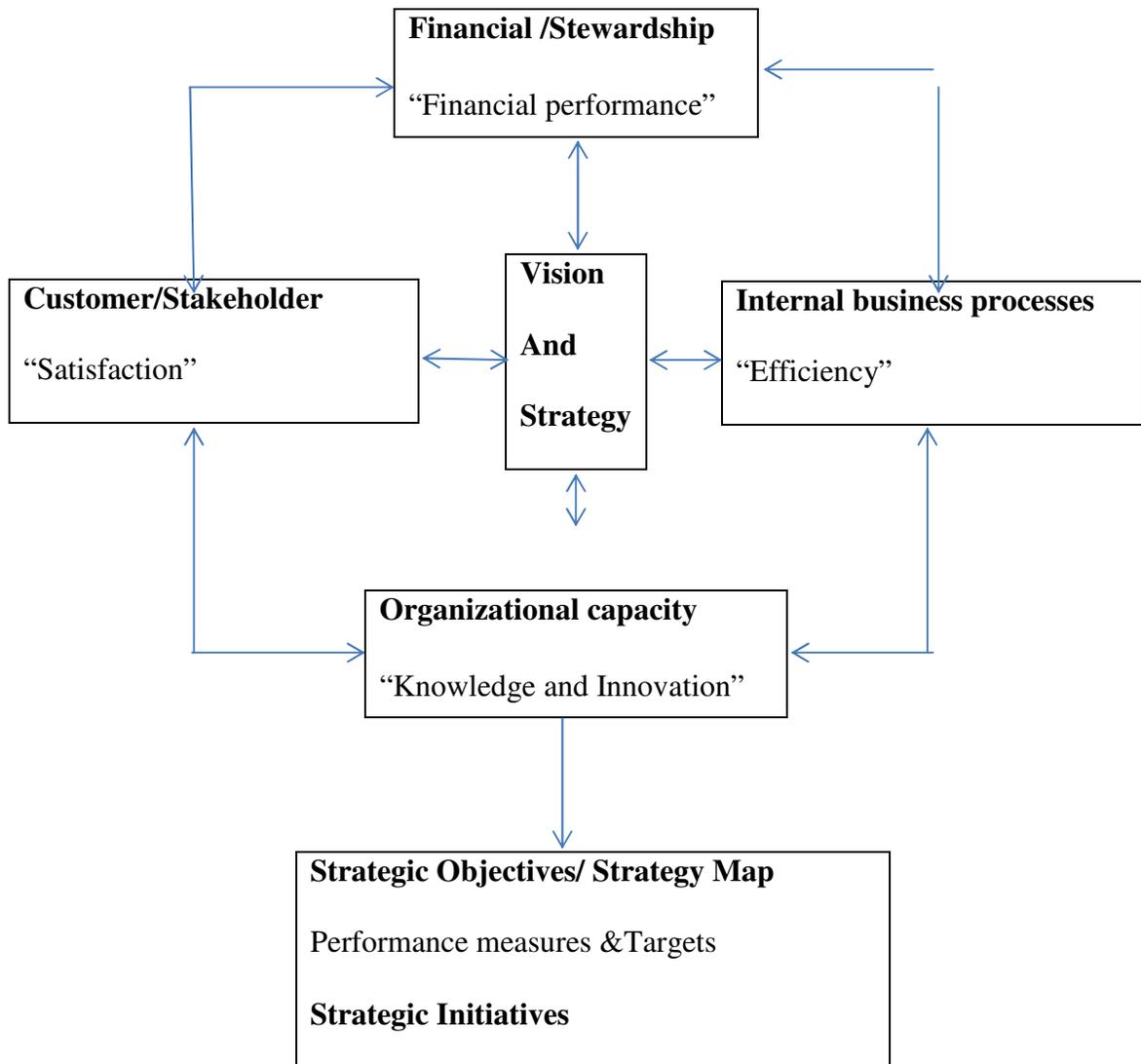
Santos and Brito (2012) proposed and tested a measurement model for firm performance based on subjective indicators. The model is grounded in stakeholder theory and a review of empirical articles. Confirmatory Factor Analyses were conducted using data from 116 Brazilian senior managers to test its fit and psychometric properties. The final model realized six first order dimensions: profitability, growth, customer satisfaction,

employee satisfaction, social performance and environmental performance. A second-order financial performance construct influencing growth and profitability correlated with the first order inter-correlated, non-financial dimensions. Results suggest dimensions cannot be used interchangeably since they represent different aspects of firm performance and corroborate the idea that stakeholders have different demands that need to be managed independently. Researchers and practitioners may use the model to fully treat performance in empirical studies and to understand the impact of strategies on multiple performance facets.

Iravo, Ongori and Munene, (2013) stated that one of the important questions in business has been why some organizations succeed and why others fail and this has influenced a study on the drivers of firm performance. For a firm to be successful it has to record high returns and identify performance drivers from the top to the bottom of the organization. Njihia, Obara & Mauti (2013) highlighted performance measurement as one of the tools which help the firm in monitoring performance, identifying the areas that need attention, enhancing motivation, improving communication and strengthening accountability.

Performance management and improvement is at the heart of strategic management because a lot of strategic thinking is geared towards defining and measuring performance (Nzuve & Nyaega, 2012). Odhiambo (2009) identified three approaches to performance in an organization which are; the goal approach which states that an organization pursues definite identifiable goals. This approach describes performance in terms of the attainment of these goals. The second approach is the systems resource approach which defines performance as a relationship between an organization and its environment. This concept defines performance according to an organization's ability to secure the limited and valued resources in the environment. The third approach is the process perspective which defines performance in terms of the behavior of the human resource of an organization (Waiganjo, Mukulu & Khaniri, 2012).

According to Hubbard, 2009, performance measurement has evolved overtime from traditional financial measure. With modernization and increasing competition, technological discontinuities and more demanding customers, financial measures turned out to appear short term and more internally focused with little strategic consideration to competitors and customers (Kaplan & Norton, 1996). These measures also lacked strategic focus and innovation and hence a more inclusive stakeholder view called the Balanced Score Card by Kaplan and Norton, was developed with added non-financial strategic measures to the mix in order to better focus on long term success. A firm is seen as having responsibility to the wider set of groups than simply shareholders (Hubbard, 2009). It incorporates; Financial Stewardship, Internal Business processes, the Customer stakeholder, Organizational capacity and Strategic objectives strategy map.



**Figure. 2.3: Balanced score card as measure of strategic firm performance**

(Source:from Kaplan &Norton, 1996)

As a performance measurement system the above figure 2.3- balanced score card can be explained as follows;

1. Organizational Capacity (originally called the Learning and Growth): Views organizational performance through the lenses of human capital, infrastructure,

technology, culture and other capacities that are key to breakthrough performance.

2. The internal business process: Views organizational performance through the lenses of the quality and efficiency related to the firm's products or services or other key business processes.
3. The customer/Stakeholder: Views organizational performance from the point of view of the customer or other key stakeholders that the organization is designed to serve. How satisfied are our customers/ Stakeholders? This is a more strategic approach to measuring firm performance hence introduction of the term systemic to signify systems` scope.
4. The financial perspective: Views performance in terms of financial performance and effective resource use. How are we doing for our shareholders? A financial perspective typically uses measures like cash flow, return on equity, sales and income growth.
5. Strategic Objectives/ Strategy Map: Visualize and communicate how value is created by an organization. Improvements on the organizational capacity perspective enable the organization to improve its internal processes which in turn enables the organization to realize desired results in the Customer/Stakeholder and Financial perspectives.

With this performance information, an empirical review of the independent variables on performance is as follows;

### **2.5.1 Strategic Innovation Capability and Firm Performance**

Innovative capability is the most important determinant of firm performance (Calantone, Cavusgil & Zhao, 2002). The importance of this construct needs not be overemphasized since it stands out as the most important differentiation strategy to acquire a competitive advantage in the market.

Van-Auken, Madrid-Guijarro and García-Pérez-de-Lema (2008) carried out a study on innovation and performance in Spanish Manufacturing SMEs. The specific focus of the study was to analyse the relationship between the degree of innovation (measured as innovation in products, processes and administration systems) and performance among 1,091 Spanish manufacturing SMEs. Data used for the study was collected using questionnaires. The findings of the analysis revealed that innovation positively impacts SMEs performance in low and high technology industries. Innovation is more important to achieving a competitive advantage in high technology firms than low technology firms. These results support innovation as being important to a firm's sustainable competitive advantage.

Bukhamsin, (2015) conducted a study in Ireland on the relationship between organizational innovation capability and firm performance. The specific focus of the study was the small and medium-sized enterprises (SMEs). Data used for the study was collected from managers and employees of both small and medium sized enterprises using questionnaires. The study found out that that the two important aspects of innovation capability, that is; innovation process and leadership management, are directly and positively associated with overall firm financial and operational performance.

In Malaysia, Salim and Sulaiman (2011) set out to investigate the effect of organizational learning on innovation as well as the impact of innovation on company performance. Data used for the study was collected using an electronic survey from 320 small and medium enterprises operating in the ICT industry in Malaysia. The statistics used included frequency counts, percentages, means, standard deviations and regression analysis. The results of the analysis provided evidence that organizational learning contributes to innovation capability, and that innovation is positively related to firm performance.

In a Kenyan context, Shisia, Sang, Matoke, and Omwario (2014) conducted a study aimed at investigating the relationship between strategic innovation and performance of public universities in Kenya. The specific objectives of the study were to establish the nature of strategic innovations in the universities and determine the influence of strategic innovations on the performance. The study employed a descriptive survey research design to all the public Universities in Kenya. Data used for the study was quantitative in nature and was collected using questionnaires. The statistics used included means, standard deviations and multiple regression analysis. The study established that there is a positive significant relationship between strategic innovation and performance of public universities in Kenya.

### **2.5.2 Strategic Technical Knowledge Capability and Firm Performance**

Reichert and Zawislak, (2014) conducted a research with an aim of investigating the relationship between investments in technological capability and economic performance in Brazilian firms. The study population consisted of 133 Brazilian firms. The study found out that there were no significant relationship between technological capability and firm performance. These results may be attributed to the fact that most of the industries which were involved in the study were low and medium in terms of their economic status. Another reason was that firms of lower technological intensity industries performed above average in the economic performance hence putting less emphasis on technological capability. However, these findings do not diminish the merit of firms' and country's success. They in fact confirm a historical tradition of a country that concentrates its efforts on basic industries.

Isobe, Makino and Montgomery (2008) carried a research to investigate relationship between technological capabilities and firm performance. Technology capabilities were categorized into two; that is, refinement capability and reconfiguration capability. Refinement capability involves improvement of the existing asset portfolio while reconfiguration capability involves restructuring of the asset portfolio through the

integration of new assets. The study sample comprised of 302 small and medium sized manufacturing firms in Japan. The findings of the analysis revealed that refinement capability relates more positively to operational efficiency than does reconfiguration capability, and that reconfiguration capability relates more positively to strategic performance than does refinement capability. It also emerged that firms with superior refinement capability tend to possess superior reconfiguration capability. This clearly indicates that both external and internal factors, such as technological volatility, inter-firm collaboration, and firm age and size, are significantly associated with the level of refinement and reconfiguration capabilities possessed by a firm.

In a different context, Senaji and Nyaboga (2011) did a study with an aim of investigating the relationship between knowledge management process capability and firm performance. The study employed a survey research design. The study findings revealed that knowledge management process operations positively impact on performance.

### **2.5.3 Strategic Service Quality Capability and Firm Performance**

Cruz-Ros and Gonzalez-Cruz (2015) conducted a research on service firm capabilities and firm performance. The specific goal of the study was to examine the relationship between managerial capabilities, organizational capabilities, marketing capabilities, service quality capabilities and firm performance. The research also sought to investigate whether interaction between these capabilities and their contribution to firm performance differ depending on the service's customer-contact level. The results showed that managerial and organizational capabilities strengthen service quality and marketing capabilities. Furthermore, service quality and marketing capabilities significantly and directly affect firm performance. For services with high customer contact, marketing capabilities significantly and positively affect firm performance. For low customer-contact services, service quality capabilities significantly and directly affect performance.

Mose and Kibera, (2015) carried out a study on the influence of service quality management practices (top management support, employee management, customer orientation, quality information, reward and recognition and product/service) on the performance of hotel firms. A descriptive cross-sectional survey was used to target 209 hotel firms which are registered with the Kenya Association of Hotelkeepers and Caterers (KAHC). Questionnaires were distributed to 88 Chief Executives and Senior Managers who participated in the study. Data was analyzed using descriptive and inferential statistics. The statistics used included frequency counts, percentages, means, standard deviations and regression analysis. The results of the study revealed that service quality management practices significantly influence firm performance.

#### **2.5.4 Strategic Learning Culture Capability and Firm Performance**

According to Nabong, (2015), the benefits of organizational learning culture include; increasing efficiency and productivity, increases employee satisfaction, creates culture of knowledge inquiry and sharing, enhance ability of workers to adapt to change. The suitability of a learning culture therefore promotes knowledge and skill acquisition which facilitates innovativeness potentially leading to long term profitability and performance (Hussan *et al.*, 2014).

Shahzad, Luqman, Khan and Shabbir (2012) carried a research with an aim of establishing the impact of organizational learning culture on firm performance. The specific goal of this study was to demonstrate conceptualization, measurement and examine various concepts on organization culture and performance. The study found that organizational culture has deep impact on the variety of organizations process, employees and its performance. The research also revealed that if employee are committed and having the same norms and value as the organization`s, they can increase their work performance toward achieving the overall organization goals.

Hussein, Omar, Noordin and Ishak (2015), conducted a study with an aim of exploring the level of learning organization culture and its associations with organizational performance, and organizational innovativeness among academics in a Public Institution of Higher Education in Malaysia (PIHE). The study sample comprised of 60 academicians in public institutions. Questionnaires were used as the tools for data collection. The findings of the study showed that there was a significant positive relationship between organization learning culture, organizational innovativeness and organizational performance among academics in a Public Institution of Higher Education (PIHE) in Malaysia. The study also found out that continuous learning was highly correlated with organizational performance while collaboration and team learning was found to be highly associated with organizational innovativeness.

However, Goh and Ryan, (2002) did a study to examine the relationship between the learning capability of organizations and its potential impact on firm performance. The study found out that there was no significant association between learning capability and the two financial performance measures, return on equity and return on assets. However, the study established that learning capability was strongly related to job satisfaction which is a non-financial performance measure.

## **2.6 Critical Review**

The research domain of strategic firm capabilities has become one of the most active constructs in strategic management but it is plagued by confusion around itself. A potential reason for this confusion is embedded in the unique nature of the construct's development path, a peculiarity that has led to split understandings of what constitutes a strategic capability. Di Stefano, Peteraf, and Verona (2014) suggested a solution to this problem in the form they called organizational drive train. This represents a theoretical model aimed at combining different views of the definition of dynamic capabilities by explaining how routines and simple rules interact. This shows that it is possible to

advance the development of the framework by combining divergent understandings into a coherent whole.

The dynamic capabilities framework has had a significant impact on strategic management theory and practice, but the sizable literature on the topic has not always been unified (Teece, 2014). There are key elements that have been omitted or poorly integrated into the dynamic capabilities literature: the role of individual action by entrepreneurial managers, the role of resources, strategy, and the distinction between ordinary and dynamic capabilities. Dynamic capabilities are advanced as a multidisciplinary framework to explain long-run enterprise performance.

Despite its growing popularity, the development of the strategic capabilities framework has not gone unchallenged and has received some criticism. Arend and Bromiley (2009), for example, criticize them for (1) unclear value-added relative to existing concepts; (2) lack of a coherent theoretical foundation; (3) weak empirical support; and (4) unclear practical implications". Williamson (1999) criticizes the capabilities perspective and especially the strategic capabilities framework regarding "...obscure and often tautological definitions of key terms; and failures of operationalization". Other authors echo the critique of vague or confusing definitions that make it difficult to capture the construct (Danneels, 2008). The lack of empirical research on strategic capabilities is a reason for concern for several scholars (Newbert, 2007). In this regard other authors note that the major part of empirical research on strategic capabilities was conducted in qualitative case studies or concentrated on small sections of the concept (Wang & Ahmed, 2007) and that quantitative empirical tests of a comprehensive model of strategic capabilities are underdeveloped.

As the findings remain unconnected, there is no clear understanding about the antecedents and consequences of strategic capabilities, and until to date the construct strategic capabilities remains abstract and diffuse as there is no widely accepted operationalization available (Barreto, 2010). Zahra, Sapienza and Davidsson (2006)

further state that strategic capabilities are often operationalized in a way that makes it difficult to differentiate between their existence and their effects. Another point of criticism regarding the capability perspective is that the field is lacking micro-foundations that explain how individual-level abilities are leveraged to collective organizational-level constructs like organizational capabilities or routines (Abell, Felin & Foss, 2008).

## **2.7 Research Gaps**

From the above literature reviewed, it is evident that most of the previous studies found out that strategic firm capabilities (innovation capability, technical knowledge, service quality and learning culture) have a significant influence on firm performance (Salim & Sulaiman 2011; Isobe, Makino & Montgomery 2008; Cruz-Ros & Gonzalez-Cruz, 2015; Hussein, Omar, Noordin & Ishak, 2015). These notwithstanding, the studies were worked out as a single impact correlation as opposed to a strategic systems approach to performance. Furthermore, majority of these studies were conducted in most developed countries and were not specific to the retail sector hence the study findings could not be generalized in developing economies (Van Auken, Madrid-Guijarro and García-Pérez-de-Lema (2008), Malaysia, Salim and Sulaiman (2011)).

In addition to these, some of the reviewed studies have varying findings in relation to influence of various strategic firm capabilities on performance. For instance, Reichert and Zawislak (2014) established that there was no significant relationship between technical knowledge capability and firm performance while Senaji and Nyaboga (2011) found out that knowledge management process operations positively impact performance. Salim and Sulaiman (2011) established that organizational learning contributes to innovation capability, and innovation positively influenced firm performance. Much of the reviewed literature concentrated on creating the necessary environment for learning without showing how and when organization performance can

be attributed to strategic learning culture (Rasula, Vuksic & Stemberger, 2012; Stevens, 2010; Lesser & Rivera, 2006).

Further the previous studies focused on new products and services, new production processes, and new organizational forms without sufficient connection as a factor of organizational performance (Kamotho, 2009; Mwangi, 2007; Frame & White, 2004). They also viewed strategic technical knowledge as an enabler of organizational performance with no direct link (Agboola, 2006; Syed-Ikhsan & Rowland, 2004; Daud&Yusoff, 2010; Marques & Simon, 2006; Becheikh, Ziam, Idrissi, Castonguay & Landry, 2012; Momeni, Monavarian, Shaabani, & Ghasemi, 2011; Holsapple & Singh, 2005; Holsapple & Jones, 2007).

It was therefore against this background that the current study sought to bridge these gaps by determining the influence of Strategic firm capabilities on the systemic performance of vendor managed retail medium and large supermarkets in Nairobi City County, Kenya.

## **2.8 Summary**

The literature reviewed above is a reflection of findings by previous researchers on the strategic capabilities of organizations and how these contribute to competitive advantage. This chapter reviewed the theoretical literature and covered three theories that explain strategic capabilities and firm performance. These theories include; Resource based view, Knowledge based view and Organization learning theory. An analysis of these theories and critical review of the same with regard to the subject matter identified the research gaps which occasioned this study. The review brought out the conceptual framework showing the interaction of variables; Strategic Innovation capability, Strategic Technical knowledge capability, Strategic Service quality and Strategic learning culture capability as independent variables and the systemic firm Performance of the retail sector as dependent variable.

Among the gaps detected, it was observed that the previous studies approached the research in a desegregated manner as opposed to the strategic systems approach. It was also observed that most of the previous reviewed studies have been conducted in developed countries and were not specific to the retail sector hence the study findings could not be generalized in developing countries. This may be attributable to scanty nature of literature review on developing countries with a specific focus on Kenya in relation to strategic firm capabilities and firm performance. Further, previous studies have focused on new products and services, new production processes and new organizational forms with little or no linkage of innovation as a factor of organizational performance. These studies also viewed strategic technical knowledge as an enabler of organizational performance with no direct link to performance. They were not keen to quantifying the contribution of strategic technical knowledge to firm performance. Much of the literature have concentrated on creating the necessary environment for learning without showing how and when organization performance can be attributed to strategic learning culture. These are the gaps that this study sought to address by determining the relationship of strategic firm capabilities with the systemic performance of vendor managed retail medium and large supermarkets in Nairobi City County, Kenya.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter outlines various stages and phases that were followed in conducting the study. It specifies the blueprint for the collection, measurement and analysis of data. This section spells out the procedures and techniques that were used in the collection, processing and analysis of data. Specifically the following subsections are included; research design, target population, sampling design, data collection instruments, data collection procedures and finally data analysis.

#### **3.2 Research Design**

This study utilized a mixed research design which incorporates the qualitative and quantitative research methods. Qualitative and quantitative research methods complemented each other in this study in the sense that while Quantitative research method involved use of the multiple linear regression model whose coefficient was tested using Analysis of Variance (ANOVA) for overall model significance, Qualitative research method involved content analysis in which issues emerging from the key open ended questions clustered into thematic areas were analyzed and interpretation before conclusions drawn accordingly. The interpretation used the qualitative data to support the quantitative findings.

#### **3.3 Target Population**

Target population in statistics is the specific population about which information is desired. The study population comprised the vendor managed retail medium and large supermarkets in Kenya, located in Nairobi. The focus on medium and large supermarkets in Nairobi Kenya was due to their significant role as stakeholders in the

retail sector. According to business licensing department at the Nairobi City County, there were 58 medium and large supermarkets in Nairobi City County in 2015, the year when data collection was done. The target population included five senior managers in the 58 medium and large supermarkets.

**Table 3.1: Target Population**

<b>Vendor managed retail type</b>	<b>Population of supermarkets</b>	<b>Senior managers` population</b>
Medium	43	215
Large	15	75
<b>Total</b>	<b>58</b>	<b>290</b>

### **3.4 Sample Size and Sampling Technique**

Simple random sampling technique was used to select the management staff to participate in the study from among the list of medium and large supermarkets provided by the business licensing department at the Nairobi City County. Black (2004) defines simple random sampling as a sampling method in which each member of the population has an equal and known chance of being selected. This method was used because it is simple, easily applied to a small population and ensures there is no bias.

According to Staw and Epstein (2000), senior managers are responsible for initiating a new strategic initiative in their organizations. They therefore play a leading role in strategy formulation and implementation process. This study considered two top level managers in each of the vendor managed retail firms from the entire census of the medium and large retail supermarkets in the Nairobi city county through simple random sampling to give a sample size of 116 senior managers. Two out of five senior managers from every supermarket constitutes thirty percent which suffices to participate in the study.

**Table 3.2: Vendor Retail Firms Sampling Matrix**

<b>Vendor managed retail type</b>	<b>Population of supermarkets</b>	<b>Vendor sample size/census</b>	<b>Senior managers sample size</b>
Medium	43	43	86
Large	15	15	30
<b>Total</b>	<b>58</b>	<b>58</b>	<b>116</b>

### **3.5 Data Collection Methods**

The study used both primary and secondary data. Data collection methods for primary data were semi-structured questionnaires which were comprehensive in scope, with simple and clear questions were hence used to collect data because the targeted respondents could be reached to fill the questionnaire. This method proved beneficial because a large number of subjects who are able to read and write independently were reached in the data collection exercise.

#### **3.5.1 Primary Data**

Andre (2004) explained that primary data is data that is used for a scientific purpose for which it was collected. Primary data was collected using a questionnaire. The questionnaire in this study comprised of six sections. The first section contained background information of the respondents. The second section comprised of questions on strategic innovations capability while the third section sought information on strategic technical knowledge capability. The fourth section addressed strategic service quality capability while the fifth section addressed questions on strategic learning culture capability. The sixth section had questions seeking information on firm performance.

### **3.5.2 Secondary Data**

According to Kothari (2004) secondary data is information that has already been collected and passed through statistical process. Andre (2004) described secondary data as information that is being used for other purposes other than that for which it was originally collected. It can be obtained from government publications e.g. annual statistical abstracts, economic survey; published accounts. In this study Secondary data was obtained from firm records, reports, publications that included magazines, research projects, journals and books. Other reference materials included the internet and i-cloud. Document review was also used to collect secondary data for this study. Secondary data collection provided an invaluable source of literature review.

### **3.6 Validity**

The most important criterion of research is validity. Validity is concerned with the integrity of the conclusions that are generated from a piece of research. It is the degree to which an instrument measures what it is actually meant to measure. It estimates how accurately the data in the study represents a given variable or construct in the study (Mugenda, 2008). Validity suggests fruitfulness and refers to the match between a construct, or the way a study conceptualizes the idea in a conceptual definition and the data.

To establish the validity of the research instrument the study sought opinions of experts in the field of study especially the study's supervisors. This facilitated the necessary revision and modification of the research instrument thereby enhancing its validity. Mugenda and Mugenda (2003) contend that the usual procedure in assessing content validity of a measure is to use a professional or expert in a particular field.

### **3.7 Reliability**

Reliability is the tendency towards consistency (Shanghverzy, 2003) and therefore, different measures of the same concept or the same measurements repeated over time should produce the same results (Treiman, 2009). Reliability is synonymous with the consistency of a test, survey, observation, or other measuring device. The index alpha is the most important index of internal consistency and is attributed as the mean of correlations of all the variables, and it does not depend on their arrangement (Anastasiadou, 2006). Reliability is increased by including many similar items on a measure, by testing a diverse sample of individuals and by using uniform testing procedures. It is commonly used in relation to the question of whether the measures that are devised for concepts in business are consistent.

A Cronbach's alpha (Cronbach coefficient alpha), which is based on internal consistency was calculated using SPSS to establish the reliability of the survey instrument. This methodology measures the average of measurable items and its correlation. Field (2009) contends that Cronbach's alpha value that is at least 0.70 suffices for a reliable research instrument. In this study a threshold of 0.70 was used to establish the reliability of the data collection instrument.

### **3.8 Pilot Study**

A pilot test study was done to ensure that the research instruments are consistent and are not ambiguous. Ten managers of two vendor managed retail firms were selected for a pilot study. They filled questionnaire against thirty four items of the four independent variables in the study and the results yielded Cronbach's Alpha of 0.881. Those who participated in this pilot test were not eligible for the main study. The results of pilot test helped correct the questionnaire to ensure they capture the intended data for the study.

### **3.9 Data Collection Procedure**

This study collected quantitative data. Data was collected using self-administered questionnaires which were administered to the respondents and handed back to the researcher after filling. Nevertheless, where it proved difficult for the respondents to complete the questionnaire immediately, the researcher left it with the respondents and came to pick them up later. The structured questions were used in an effort to save time and money as well as to facilitate easier analysis since they were in immediate usable form.

### **3.10 Data Analysis and Presentation**

Before processing the responses, the completed questionnaires were checked for completeness and consistency. The data was then coded to enable the responses to be grouped into various categories. The collected Data was purely quantitative and it was analyzed by descriptive statistics which included frequencies, percentages, means and standard deviations. IBM SPSS Statistics was used to aid in data analysis. Tables were used to summarize responses for further analysis and facilitate comparison. The findings were presented using tables and charts. A multiple linear regression analysis was done using the following formula;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where

Y= Performance of vendor managed supermarkets

X<sub>1</sub>= Strategic Innovations Capability variable

X<sub>2</sub>= Strategic Technical Knowledge Capability variable

X<sub>3</sub>= Strategic Service Quality Capability variable

$X_4$ = Strategic Learning Culture Capability variable

$\beta_1, \beta_2, \beta_3$  and  $\beta_4$  = Beta coefficients for corresponding variables

$\epsilon$ =Stochastic variable

### **3.10.1 Variable Definition and Measurement**

This study had four independent variables which include; strategic innovations capability, strategic technical knowledge capability, strategic quality service capability and strategic learning culture capability. Strategic innovations capability was defined by preparedness in change of market demands and research and development in vendor managed retail firms. Strategic technical knowledge capability was defined by knowledge management and management of talents and skills. Strategic quality service capability was defined by targeted products and services and delivering value for customers. Strategic learning culture capability was defined by systems thinking and team learning.

The p-value obtained based on alpha level or significance level of 0.05 was used for hypotheses testing. Inferential data analysis was done using Pearson correlation coefficient and multiple linear regression analysis. Pearson correlation coefficient was used to measure the strength and direction of the relationship between dependent variable and independent variables. Correlation technique allows the researcher to analyze the degree and direction of the relationship between two variables. Computation of a correlation coefficient yields a statistic ranging from -1 to +1 (correlation coefficient  $r$ ) and indicates the relationship of the two variables under comparison. The direction of the relationship is indicated by a positive (+) or a negative (-) sign. A positive relationship means that when one variable increases the other one it is being compared with also increases. A negative relationship means an increase in one variable yields a decrease in the other variable that is being compared with. If there is no relationship, the

correlation coefficient ( $r$ ) is equal to zero (0). Multiple linear regression analysis was used to establish the relations between the dependent and independent variables. Multiple linear regression analysis is a tool that uses two or more independent variables to predict a dependent variable.

## **CHAPTER FOUR**

### **RESEARCH FINDINGS AND DISCUSSION**

#### **4.1 Introduction**

The chapter presents the research findings and subsequent discussion of the results. The general objective of this study was to determine the influence of Strategic firm capabilities on the systemic performance of vendor managed medium and large supermarkets in Nairobi City County, Kenya. The four specific objectives that guided the study include; to establish the extent to which strategic innovation capability contributes to profitability of the vendor managed medium and large supermarkets; to determine the extent to which strategic technical knowledge capability contributes to profitability of the vendor managed medium and large supermarkets; to investigate the extent to which strategic quality service capability contributes to profitability of the vendor managed medium and large supermarkets; and to establish the extent to which strategic learning culture capability contributes to profitability of the vendor managed medium and large supermarkets.

#### **4.2 Response Rate**

Out of the 116 respondents surveyed, 91 administered questionnaires were filled and returned. This translates into a response rate of 78.4%. According to Babbie (2002), a response rate of 50% and above is adequate for analysis and reporting hence a response rate of 78.4% was considered excellent for analysis and reporting in this study. Mugenda (2008) classified response rate into three categories; 50% as adequate; 60% as good; and 70% and over as excellent. This excellent response rate could be attributed to data collection procedure used by the researcher where he personally administered questionnaires to the respondents.

### 4.3 Pilot Results

In the pilot study, Cronbach's Alpha was used to measure reliability. A threshold of 0.7 and above is recommended for a reliable instrument. The pilot results show Cronbach's Alpha value of 0.810 which is within the recommended threshold hence the research instrument used was reliable. The pilot results are shown in Table 4.1.

**Table 4.1: Reliability statistics**

<b>Cronbach's Alpha of 0.810</b>		<b>N of Items 4</b>		
<b>Variables</b>	<b>Scale Mean if Item Deleted</b>	<b>Scale Variance if Item Deleted</b>	<b>Corrected Item-Total Correlation</b>	<b>Cronbach's Alpha if Item Deleted</b>
Strategic Innovations Capability	12.1085	1.536	.571	.788
Strategic Technical Knowledge Capability	12.1295	1.286	.665	.747
Strategic Service Quality Capability	11.7994	1.367	.740	.708
Strategic Learning Culture Capability	11.6267	1.610	.552	.796

### 4.4 Background Information

The general information in this study comprised of positions respondents held in vendor managed medium and large supermarkets, duration worked, gender and duration vendor managed medium and large supermarkets have been in operation. General information also comprised of the size of the supermarkets.

#### 4.4.1 Respondents` Distribution by Position

The respondents were asked to indicate their position in vendor managed medium and large supermarkets. Results of this analysis are presented in Table 4.2.

**Table 4.2: Position in the vendor managed medium and large supermarkets**

<b>Position in supermarket</b>	<b>Frequency</b>	<b>Percentage</b>
Manager	30	33.0
Supervisor	3	3.3
Management staff	58	63.7
<b>Total</b>	<b>91</b>	<b>100.0</b>

Majority of the respondents were management staff (63.7%) while 33% were managers. Only 3.3% of the respondents were supervisors. This implies that the right category of respondents participated in the study.

#### 4.4.2 Duration Worked in a Supermarket

The researcher asked respondents to indicate the duration that they have worked in their respective vendor managed retail firm. Their responses were as shown in Table 4.3.

**Table 4.3: Work experience in a supermarket**

<b>Duration</b>	<b>Frequency</b>	<b>Percent</b>
1-4 years	36	39.6
5-9 years	36	39.6
10-14 years	14	15.4
Over 15 years	5	5.5
<b>Total</b>	<b>91</b>	<b>100.0</b>

Respondents who had worked in their respective Vendor managed medium and large supermarkets for 1-4 years and 5-9 years were 39.6% each. Only 5.5% of the respondents indicated they had worked in their respective Vendor managed medium and large supermarkets for over 15 years while 15.4% indicated that they had worked for 10-14 years. This shows that majority of the respondents had worked in supermarkets for a duration ranging between 1 and 9 years which may imply that there is an outward looking strategy for employees in the supermarkets.

#### 4.4.3 Respondents Distribution by Gender

Respondents were asked to indicate their gender and their responses were as shown in Table 4.4.

**Table 4.4: Respondents' gender**

<b>Gender</b>	<b>Frequency</b>	<b>Percentage</b>
Male	60	66.1
Female	31	33.9
<b>Total</b>	<b>91</b>	<b>100.0</b>

As shown in Table 4.4, majority of the respondents were males (66.1%) while 33.9% of the respondents were females. This shows that the researcher did not consider gender balance during data collection and hence the number of male respondents was higher compared to the female respondents. The influence of gender in this study is therefore assumed insignificant.

#### 4.4.4 Duration respective Supermarkets have been in Operation

The researcher asked the respondents to indicate the duration that their respective supermarkets have been in operation. Table 4.5 illustrates results of this analysis.

**Table 4.5: Duration supermarket has been in operation**

<b>Duration</b>	<b>Frequency</b>	<b>Percent</b>
0-4 years	15	16.5
5-9 years	12	13.2
10-14 years	18	19.8
Over 15 years	46	50.5
<b>Total</b>	<b>91</b>	<b>100.0</b>

Majority of the respondents (50.5%) indicated that their respective supermarkets have been in operation for over 15 years while 19.8% indicated that their respective vendor managed medium and large supermarkets have been in operation for 10-14 years. Respondents who indicated that their respective vendor managed medium and large supermarket have been in operation for 0-4 years were 16.5% while only 13.2% indicated that their respective vendor managed medium and large supermarkets have been in operation for 5-9 years. This implies that the vendor managed supermarkets that participated in the study had been in existence for a period that is long enough to assess the impact of the independent variables on the dependent variable.

#### 4.4.5 Category of Supermarket

The respondents were asked to indicate the size of their respective vendor managed firm. Table 4.6 shows their responses.

**Table 4.6: Category of the firm**

<b>Firm category</b>	<b>Frequency</b>	<b>Percentage</b>
Large	37	40.3
Medium	54	59.7
<b>Total</b>	<b>91</b>	<b>100.0</b>

Majority of the respondents indicated the size of their respective vendor managed firm as medium (59.7%) while 40.3% indicated the size of their respective vendor managed firm as large implying that the study focused on the right organizations.

#### **4.5 Extent to Which Strategic Innovation Capability Contributes to Performance of the Vendor Managed Retail Firms**

The first objective of the study was to establish the extent to which strategic innovation capability contributes to performance of the vendor managed retail firms. To address this objective, the study respondents were presented with various statements measuring the strategic innovations adoption by the supermarkets and its contribution to performance. They were asked to indicate their level of agreement or disagreement on a five point likert scale ranging from 1(strongly disagree) to 5 (strongly agree). The findings of this analysis are presented below.

##### **4.5.1 Vendor Managed Medium and large supermarkets Performance**

Organizational performance is a business processes outcome within an organization and symbol of company success (Zhang & McCullough, 2005). Organizational performance comprises of two vital components and they include non-financial performance and financial performance. Non-financial performance is based on organizational effectiveness and includes variables such as improved production, the ability to innovate, customer loyalty, customer benefit, new product or service introduction, customer satisfaction, and market share. Financial performance essentially is related to

profitability estimates, including return on investment, net profits, return on sales, profit margin, return on equity, and return on assets. With thesein regard, the study first sought to find out the performance of vendor managed medium and large retail supermarkets in Kenya, a five point likert scale containing seven statements was used. The scale ranged from 1-5, with 1 denoting strongly disagree, 2 representing disagree, 3 neutral, 4 agree and 5 strongly agree. The midpoint of the scale was a score of 3. Therefore, any score above 3 denoted that respondents agreed with the statement while scores below 3 signified that respondents disagreed with the statement. Table 4.7 illustrates means and standard deviations obtained on the scale measuring firm performance.

**Table 4.7: Vendor managed medium and large supermarkets performance**

Statements	SA		A		N		D		SD		Mean	Std Dev.
	f	%	f	%	f	%	f	%	f	%		
1. We are more efficient in service delivery	52	57.1	31	34.1	7	7.7	1	1.1	0	0.0	4.47	.689
2. We have increased number of customers	35	38.5	35	38.5	20	22.0	1	1.1	0	0.0	4.14	.797
3. We have increased the number of products and services offered in this supermarket	15	16.5	64	70.3	12	13.2	0	0.0	0	0.0	4.03	.547
4. We have increased our sales	16	17.6	59	64.8	16	17.6	0	0.0	0	0.0	4.00	.596
5. We have improved on profits	15	16.5	45	49.5	31	34.1	0	0.0	0	0.0	3.82	.693
6. We have increased the number of employees	4	4.4	40	44.0	40	44.0	7	7.7	0	0.0	3.45	.703
7. We have expanded on customer reach	16	17.6	26	28.6	12	13.2	31	34.1	6	6.6	3.16	1.258

**Key: SA-Strongly Agree, A-Agree, N-Neutral, D-Disagree, SD-Strongly Disagree  
f- frequency, %-Percentage**

As shown in Table 4.7, the mean scores obtained by the respondents on the statements measuring firm performance ranged from 3.16 to 4.47. The highest ranked statements were; “we are more efficient in service delivery (4.47)” and “we have increased number of customers (4.14).” On the other hand, the lowest ranked statements were; “we have opened new branches (3.16)” and “we have increased the number of employees (3.45)”. Based on these findings, it emerged that all the statements on the scale measuring firm performance of medium and large supermarkets obtained mean scores above 3.00, meaning majority of the respondents agreed with the statements.

Based on the ratings given on the scale, an overall score for the firm performance was computed, with the highest possible score being 35 and the lowest possible score being 7. The midpoint on the scale was 21. Table 4.8 illustrates descriptive statistics on firm performance

**Table 4.8: Overall scores on firm performance**

<b>Descriptive statistics on Firm performance</b>	
N	91
Mean	27.0879
Std. Deviation	3.36864
Variance	11.34774
Skewedness	.079
Std. Error of Skewedness	.253
Kurtosis	.562
Std. Error of Kurtosis	.500
Minimum score obtained	19.00
Maximum score obtained	35.00

As shown in Table 4.8, the overall scores obtained by the respondents on the scale measuring firm performance ranged from 20.0 to 36.0 with a mean score of 27.0879 and standard deviation of 3.36864. Majority of the respondents obtained mean scores above 21 meaning their firms had recorded improved performance in terms of number of customers, profits earned, sales made, products and services offered and also the numbers of employees within the firm. The numeric value for skewedness (0.079) denoted that the distribution of the scores on the scale was positively skewed.

#### **4.5.2 Strategic Innovations Capability**

Innovation is considered as the most important differentiation strategy to acquire a competitive advantage in the market. The concept of innovation is defined as a new structure or management process, a policy, a new plan or program, a new production process, or a new product or service produced in an enterprise (Lopez-Nicolas & Merono-Cerdan, 2011). With this view, the study sought to find out the extent to which strategic innovation capability contributes to performance of the vendor managed medium and large supermarkets. Table 4.9 presents means and standard deviations obtained on the scale measuring strategic innovation capability adoption.

**Table 4.9: Strategic innovations capability adoption**

Statements	SA		A		N		D		SD		Mean	Std. Dev.
	f	%	f	%	f	%	f	%	f	%		
1. From an overall profitability stand point, our new product development program has been successful.	27	29.7	41	45.1	21	23.1	2	2.2	0	0.0	4.02	.789
2. The overall performance of our new product/service development program has met our objectives.	22	24.2	48	52.7	15	16.5	6	6.6	0	0.0	3.92	.815
3. We have clear processes in place for the development of new products and services.	3	3.3	67	73.6	20	22.0	1	1.1	0	0.0	3.79	.506
4. We have invested adequately in research and development	12	13.2	39	42.9	40	44.0	0	0.0	0	0.0	3.69	.694
5. We regularly consider the consequences of changing market demands in terms of new products and services	5	5.5	33	36.3	53	58.2	0	0.0	0	0.0	3.47	.603

**Key: SA-Strongly Agree, A-Agree, N-Neutral, D-Disagree, SD-Strongly Disagree  
f- frequency, %-Percentage**

Results presented in Table 4.9 depict that the mean scores obtained by respondents on statements measuring strategic innovation capability adoption ranged from 3.47 to 4.02. Majority of the respondents (74.8%) agreed with the statement that “from an overall profitability stand point, our new product development program has been successful (4.02)”. In addition, a significant number of them (76.9%) also agreed with the

statements which stated that “the overall performance of our new product development program has met our objective (3.47)”. On the other hand, over 50.0% of the respondents were neutral on the statement which stated that “we regularly consider the consequences of changing market demands in terms of new products and services (3.47)”. Nevertheless, 44.0% of the respondents were undecided on the statements which stated that “we have invested adequately in research and development (3.69)”.

Table 4.10 shows the overall scores obtained by the respondents on strategic innovation capability.

**Table 4.10: Overall scores on strategic innovations capability**

<b>Overall descriptive statistics on strategic innovation capability</b>	
N	91
Mean	18.9231
Std. Deviation	2.32489
Variance	5.40513
Skewedness	.041
Std. Error of Skewedness	.253
Kurtosis	-.691
Std. Error of Kurtosis	.500
Minimum score obtained	14.00
Maximum score obtained	23.00

The scores on the scale ranged from 14.0 to 24.0 with an overall mean score of 18.92 and standard deviation of 2.32489. Majority of the respondents obtained scores above 15, meaning they approved that their firms exercise strategic innovations capability. The numeric value for skewedness (0.041) was positive meaning that the distribution of the scores on the scale measuring strategic innovation capability was positively skewed.

To determine whether there was a significant relationship between strategic innovation capability and firm performance, the first null hypothesis of the study was tested. This hypothesis stated that:

**H<sub>01</sub>:β<sub>j1</sub> = 0**Strategic innovation capability does not significantly affect firm systemic performance of vendor managed retail firms

To test this hypothesis, Pearson Product Moment correlation was conducted and the results of this analysis were as shown in Table 4.11.

**Table 4.11: Relationship between strategic innovation capability and firm performance**

<b>Variables</b>	<b>Pearson Product Moment Correlation</b>	<b>Strategic innovation capability</b>	<b>Firm Performance</b>
Strategic Innovation capability	Pearson Correlation	1	.243**
	Sig. (2-tailed)	.	.020
	<b>N</b>	<b>91</b>	<b>91</b>
Firm Performance	Pearson Correlation	.243**	1
	Sig. (2-tailed)	.020	.
	<b>N</b>	<b>91</b>	<b>91</b>

**\* Correlation is significant at the 0.05 level (2-tailed).**

Pearson Product Moment Correlation analysis revealed that there was a significant relationship between strategic innovation capability and firm performance, (r=0.243, p<0.05 level). This shows that there was a significant but a weak positive correlation between the two variables. The correlation coefficient was found to be positive meaning high scores on strategic innovation capability correlated with high scores on firm performance. It also emerged that more emphasis on strategic innovation capability

within a firm leads to improved firm performance. From these findings, the first hypothesis of the study which stated that strategic innovation capability does not affect firm performance  $H_0: \beta_j = 0$  was rejected and its alternative form  $H_1: \beta_j \neq 0$  accepted.

In agreement with the findings, Faruk and Gary (2015) established that innovation strategy, organizational structure and innovation culture significantly increased firm performance. In another study, Xi'na, Sohyoun, Xinming and Sang (2016) found out that innovation capability and marketing capability positively influence firm performance. Strategic innovation capability dimensions consist of new idea enhancement, proactive activity support, market-driving encouragement, risk-taking circumstance acceptance, and dynamic adaptation commitment which have an important positive effect on firm sustainability (Sriboonlue, Ussahawanitchakit & Raksong, 2015). However, contrary to the above findings, a study by Kemp *et al.* (2003) found out that innovation was associated with turnover and employment growth, but not profit and productivity among firms. Similarly, Zhou, Tan and Uhlaner, (2007) found no positive effect of innovation (new products and new service) on firm performance.

#### **4.6 Influence of Strategic Technical Knowledge Capability on Performance of the Vendor Managed Medium and Large Retail Supermarkets**

Wellman (2009) pointed out that the ability to create new knowledge is often at the heart of the organization's competitive advantage. Therefore, knowledge is the fundamental basis of competition and, in particular, tacit knowledge which can be a source of competitive advantage because it is unique, imperfectly mobile, imperfectly imitable and non-substitutable. From this view, the second objective that the study sought to determine was the influence of strategic technical Knowledge capability on performance of the vendor managed medium and large retail supermarkets. To meet this objective, the study respondents were given four statements measuring the influence of strategic technical knowledge capability on firm performance. A five point likert scale was used with 1 representing strongly disagree, 2 disagree, 3 neutral, 4 agree and 5 strongly

agree. The midpoint of the scale was a score of 3. Hence, scores above 3 denoted that respondents agreed with the statements while scores below 3 signified that respondents disagreed with the statements. The results of this analysis are presented in Table 4.12.

**Table 4.12: Strategic technical knowledge capability**

Statements	SA		A		N		D		SD		Mean	Std. Dev
	f	%	f	%	f	%	f	%	f	%		
1. Our leaders periodically organize special meetings with customers or third parties to acquire new knowledge.	21	23.1	42	46.2	28	30.8	0	0.0	0	0.0	3.92	.734
2. Our supermarket prefers to rely on knowledge that originated within our organization rather than seek out knowledge that originated outside of our firm's boundaries.	12	13.2	57	62.6	18	19.8	4	4.4	0	0.0	3.85	.698
3. Employees are assigned to regularly interact with third parties such as competitors, consultants, partner organizations, newly acquired organizations, and newly hired employees to acquire new knowledge.	23	25.3	40	44.0	18	19.8	8	8.8	2	2.2	3.81	.988
4. Our supermarket regularly looks outside of our organization's boundaries to acquire new knowledge	8	8.6	31	34.1	50	54.9	2	2.0	0	0.0	3.48	.674

**Key: SA-Strongly Agree, A-Agree, N-Neutral, D-Disagree, SD-Strongly Disagree  
f- frequency, %-Percentage**

Data presented in Table 4.12 illustrated that the mean scores obtained by the study respondents on the scale measuring strategic innovation capability ranged from 3.48 to 3.92. The highly scored statements by 69.3% and 75.8% of the respondents were; “our employees periodically organize special meetings with customers or third parties to acquire knowledge” and “our supermarkets prefer to rely on knowledge that originated within our organization respectively.” On the other hand, the lowly scored statement was “our supermarket regularly looks outside our organization’s boundaries to acquire new knowledge (3.48).”

An overall score for strategic technical knowledge capability was computed, with highest possible score being 20 and the lowest possible score being 4. The midpoint of the scale was a score of 12. The results obtained are presented in Table 4.13 below.

**Table 4.13: Overall scores on strategic technical knowledge capability**

<b>Overall descriptive statistics on strategic technical knowledge capability</b>	
N	91
Mean	15.0769
Std. Deviation	2.21224
Variance	4.89402
Skewedness	.423
Std. Error of Skewedness	.253
Kurtosis	-.853
Std. Error of Kurtosis	.500
Minimum scores obtained	11.00
Maximum scores obtained	19.00

The findings presented in Table 4.13 illustrates that the scores obtained by the respondents on strategic technical knowledge capability ranged from 11.0 to 19.0 with

an average mean of 15.0769 and standard deviation of 2.21224. The numeric value (0.423) for skewedness was positive. This means that the distribution of the scores on strategic technical knowledge capability was positively skewed.

To find out whether strategic technical knowledge capability influence firm performance, the second null hypothesis of the study was tested. This hypothesis stated that:

**H0<sub>2</sub>:  $\beta_{j2} = 0$ :** Strategic technical knowledge capability does not significantly contribute to firm performance in vendor managed medium and large retail supermarkets.

Pearson product Moment Correlation Coefficient was computed by correlating scores obtained on strategic technical knowledge capability with scores on firm performance. The findings of the analysis are as shown in Table 4.14.

**Table 4.14: Relationship between strategic technical knowledge capability and firm performance**

<b>Variables</b>	<b>Pearson Product Moment Correlation</b>	<b>Strategic Technical Knowledge Capability</b>	<b>Firm performance</b>
Strategic Technical knowledge capability	Pearson Correlation	1	.281**
	Sig. (2-tailed)	.	.007
	<b>N</b>	<b>91</b>	<b>91</b>
Firm performance	Pearson Correlation	.281**	1
	Sig. (2-tailed)	.007	.
	<b>N</b>	<b>91</b>	<b>91</b>

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

As shown in Table 4.14, Pearson Product Moment Correlation revealed that there was a significant relationship between strategic technical knowledge capability and firm performance, ( $r=0.007$ ,  $p<0.05$  level). The correlation coefficient was positive meaning that an increase in scores on strategic technical knowledge capability correlated with an increase in scores on firm performance. This implies that strategic technical knowledge capability had a positive impact on firm performance in vendor managed medium and large retail supermarkets. Therefore, the second hypothesis of the study  $H_{02}: \beta_j = 0$  was rejected and its alternate form  $H_{02}: \beta_j \neq 0$  accepted.

In agreement with the findings, Salina and Wan Fadzilah (2008) established that knowledge management processes have a significant relationship with organization's performance. Similarly, a study by Liao and Chuang (2006) found out that both social and technical knowledge management resources have significant positive influences on knowledge management process capabilities, and these capabilities have significant positive influences on both innovation dimensions, which in turn have significant positive influences on firm performance. However, a study by Reichert and Zawislak (2014) found out that there were no significant relationship between technological capability and firm performance. These results may be attributed to the fact that most of the industries which were involved in the study were low and medium in terms of their economic status. Another reason was that firms of lower technological intensity industries performed above average in the economic performance hence putting less emphasis on technological capability. However, these findings do not diminish the merit of firms' and country's success. They in fact confirm a historical tradition of a country that concentrates its efforts on basic industries.

#### **4.7 Influence of Strategic Quality Service Capability on Performance of Vendor Managed Medium and Large Retail Supermarkets**

The third objective of the study sought to investigate the influence of strategic quality service capability on performance of vendor managed medium and large retail

supermarkets. To meet this goal, study respondents were asked to indicate the extent to which they agree or disagree with various statements measuring the influence of strategic quality service capability on firm performance. Their ratings ranged from 1 (strongly disagree) to 5 (strongly agree). Table 4.15 shows means and standard deviations obtained.

**Table 4.15: Strategic service quality capability**

Statements	SA		A		N		D		SD		Mean	Std. Dev.
	f	%	f	%	f	%	f	%	f	%		
1. We differentiate ourselves from competing alternatives in terms of service delivery	34	37.4	50	54.9	7	7.7	0	0.0	0	0.0	4.31	.609
2. We create value for our customers	35	38.5	42	46.2	14	15.4	0	0.0	0	0.0	4.23	.700
3. We have a service charter that guide service delivery	30	33.0	43	47.3	18	19.8	0	0.0	0	0.0	4.13	.718
4. Our products are tailored to a specific target customers	37	40.7	31	34.1	13	14.3	8	8.8	2	2.2	4.02	1.054
5. Our employees have a common language regarding our products and services.	8	8.8	52	57.1	31	34.1	0	0.0	0	0.0	3.75	.607

**Key: SA-Strongly Agree, A-Agree, N-Neutral, D-Disagree, SD-Strongly Disagree**

Table 4.15 shows that the mean scores obtained from the respondents on the scale measuring strategic service quality capability ranged from 3.75 to 4.13. The highly ranked statements were; “we differentiate ourselves from competing alternatives in terms of service delivery (4.31)” and “we create value for our customers (4.23)”. On the other hand, the lowest ranked statements were; “our employees have a common language regarding our products and services (3.75)” and “our products are tailored to specific target customers.”

From the above findings, an overall descriptive statistic score on strategic service quality capability was computed and the results of this analysis are presented in Table 4.16.

**Table 4.16: Overall scores on strategic service quality capability**

<b>Overall descriptive statistics on strategic quality service capability</b>	
N	91
Mean	20.4396
Std. Deviation	2.35329
Variance	5.53797
Skewedness	-.430
Std. Error of Skewedness	.253
Kurtosis	-.961
Std. Error of Kurtosis	.500
Minimum score obtained	15.00
Maximum score obtained	24.00

The scores obtained by 91 respondents on the scale measuring strategic quality service capability ranged from 15.0 to 24.0 with an overall mean score of 20.4396 and standard deviation of 2.35329. The numeric value, -0.430, for skewedness showed that the distribution of the scores on the scale measuring strategic quality service capability was negatively skewed.

To establish whether strategic quality service capability influence firm performance, the third null hypothesis of the study was tested. This hypothesis stated that:-

**H0<sub>3</sub>:  $\beta_{j3} = 0$ :** Strategic service quality capability does not significantly influence firm performance of vendor managed medium and large retail supermarkets

To test this hypothesis, Pearson Product Moment Correlation was used by correlating scores on strategic quality service capability and firm performance. The results obtained are as shown in Table 4.17.

**Table 4.17: Relationship between strategic quality service capability and firm performance**

<b>Variables</b>	<b>Pearson Product Moment Correlation</b>	<b>Strategic service quality capability</b>	<b>Firm performance</b>
Strategic service quality capability	Pearson Correlation	1	.425**
	Sig. (2-tailed)	.	.000
	<b>N</b>	<b>91</b>	<b>91</b>
Firm performance	Pearson Correlation	.425**	1
	Sig. (2-tailed)	.000	.
	<b>N</b>	<b>91</b>	<b>91</b>

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

As reflected in Table 4.17, Pearson Product Moment Correlation coefficient revealed that there was a significant relationship between strategic quality service capability and firm performance, ( $r=0.425$ ,  $p<0.05$  level). The correlation coefficient  $r =0.425$  was positive, meaning strategic service quality capability has a positive impact on firm performance.

As such, the third hypothesis of the study which stated that; strategic quality service capability does not significantly influence firm performance vendor managed medium and large retail supermarkets  $H_{03}: \beta_{j3} = 0$  was rejected and its alternate form  $H_{03}: \beta_j \neq 0$  accepted. These results are in agreement with the research by Ramayah, Samat and Lo (2011) on market orientation, service quality and organizational performance in Malaysia which revealed significant effect of service quality on organizational performance. The study also established that service quality partially mediates the relationship between market orientation and organizational performance. Similarly, a study by Cho and Pucik (2005), found out that top managers relate service quality to organizational performance and hence it has been viewed as one of the important key variables in achieving long-term competitive advantage. Furthermore, Gounaris, Strathakopoulos and Athanassopoulos (2003) considered service quality as an important factor that allows an organization to differentiate itself from competitors and therefore, gain a sustainable competitive advantage. These findings therefore indicate that quality service capability positively impact firm performance.

#### **4.8 Influence of Strategic Learning Culture Capability on the Performance of the Vendor Managed Medium and Large Retail Supermarkets**

The fourth objective of the study was to establish the influence of strategic learning culture capability on the performance of the vendor managed medium and large retail supermarkets. To address this objective, respondents were presented with 5 items on a five point likert scale. The scale ranged from 1-5, with 1 denoting strongly disagree, 2 disagree, 3 neutral, 4 agree and 5 strongly agree. The midpoint of the scale was a score of 3. Therefore, mean score below 3 denoted that respondents disagreed with the statement while mean score above 3 denoted that respondents agreed with the statement. Table 4.18 depicts means and standard deviations obtained.

**Table 4.18: Strategic learning culture capability**

Statements	SA		A		N		D		SD		Mean	Std. Dev.
	f	%	f	%	f	%	f	%	f	%		
1. We have shared mental models on how the firm should operate	55	60.4	27	29.7	9	9.9	0	0.0	0	0.0	4.51	.673
2. There is team learning in this firm	49	53.8	34	37.4	8	8.8	0	0.0	0	0.0	4.45	.654
3. We have shared vision on where we want to be as an organization	41	45.1	43	47.3	7	7.7	0	0.0	0	0.0	4.37	.626
4. We have encouraged personal mastery in this supermarket	26	28.6	56	61.5	9	9.9	0	0.0	0	0.0	4.19	.595
5. We have systems thinking in this supermarket	6	6.6	57	62.6	28	30.8	0	0.0	0	0.0	3.76	.565

**Key: SA-Strongly Agree, A-Agree, N-Neutral, D-Disagree, SD-Strongly Disagree f-frequency, %-Percentage**

As shown in Table 4.18, the mean scores obtained by the respondents on the scale measuring strategic learning culture capability ranged from 3.76 to 4.51. The highly scored statements were; “We have shared mental models on how the firm should operate (4.51)” and “there is team learning in this firm (4.45)”. On the other hand, the lowly scored statements were; “we have systems thinking in this supermarket (3.76)” and “We have encouraged personal mastery in this supermarket (4.19)”. This shows that most of

the supermarkets that were sampled had laid down proper channels of communication within the organization in relation to their operation, goals and vision. The study also established that most of top managers had given all the individuals within the organization an opportunity to learning initiative.

Table 4.19 illustrates the overall scores obtained from the respondents on statements measuring the influence of strategic learning culture capability on firm performance.

**Table 4.19: Overall scores on strategic learning culture capability**

<b>Overall descriptive statistics on strategic learning culture capability</b>	
N	91
Mean	21.2747
Std. Deviation	2.18615
Variance	4.77924
Skewedness	-1.019
Std. Error of Skewedness	.253
Kurtosis	.136
Std. Error of Kurtosis	.500
Minimum score obtained	15.00
Maximum score obtained	24.00

As reflected in Table 4.19, the scores obtained by 91 respondents on the scale measuring the influence of strategic learning culture capability on firm performance ranged from 15.0 to 24.0. The overall mean score was 21.2747 with a standard deviation of 2.18615. The numeric value, -1.019, for skewedness denoted that the distribution of the scores on the scale was negatively skewed.

To find out whether strategic culture capability had any influence on firm performance, the fourth hypothesis of the study was tested. This hypothesis stated that:-

**H0<sub>4</sub>:  $\beta_{j4} = 0$ :** Strategic learning culture capability does not significantly contribute to performance of the vendor managed medium and large retail supermarkets.

To test this hypothesis, Pearson Product Moment Correlation was conducted with the independent variable being strategic learning culture and the dependent variable being firm performance. Results of this analysis are provided in Table 4.20.

**Table 4.20: Relationship between strategic learning culture capability and firm performance**

Variables	Pearson Product Moment Correlation	Strategic learning culture capability	Firm performance
Strategic learning culture capability	Pearson Correlation	1	.383**
	Sig. (2-tailed)	.	.000
	N	91	91
Firm performance	Pearson Correlation	.383**	1
	Sig. (2-tailed)	.000	.
	N	91	91

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

As shown in Table 4.20, correlation analysis results revealed that there was a significant relationship between strategic learning culture capability and firm performance, ( $r=0.383$ ,  $p<0.05$  level of significance). This means that strategic learning culture capability had a positive impact on firm performance. The fourth hypothesis of the study  $H0_4: \beta_j = 0$  was therefore rejected and its alternate form  $H0_4: \beta_j \neq 0$  accepted. These

findings corroborates with the results of the study by Hussein, Omar, Noordin and Ishak, (2015) who established that there was a significant positive relationship between organization learning culture, organizational innovativeness and organizational performance among academics in a Public Institution of Higher Education (PIHE) in Malaysia . It further emerged that continuous learning was found to be the highest in correlation with organizational performance while collaboration and team learning was found to be highly associated with organizational innovativeness. Similarly, in their study, Shahzad, Luqman, Khan and Shabbir (2012) found that organizational culture has deep impact on the variety of organizations process, employees and its performance. The research also revealed that if employees are committed and have shared norms and value as those of the organizations, they can increase their work performance hence achieve the overall organization goals.

#### **4.9 Regression of Results**

In order to establish the relative contribution of each variable (strategic innovation capability, technical knowledge capability, service quality capability and learning culture capability) on systemic firm performance, the following linear regression model was applied with firm performance as the dependent variable.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where Y= vendor managed medium and large supermarkets performance

X<sub>1</sub>= Strategic Innovations Capability

X<sub>2</sub>= Strategic Technical Knowledge Capability

X<sub>3</sub>= Strategic Service Quality Capability

X<sub>4</sub>= Strategic Learning Culture Capability

$\beta_0, \beta_1, \beta_2, \beta_3$  and  $\beta_4$  = regression coefficients

$\varepsilon$ =Stochastic term

Table 4.21 shows regression model summary

**Table 4.21: Regression model summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.558	.311	.279	2.86071

**a Predictors: (Constant), innovation capability, technical knowledge, service quality, strategic learning culture,**

Table 4.21 shows and R square value of 0.311 meaning the independent variables (strategic innovation capability, strategic technical knowledge capability, service quality and strategic learning culture) explained 31.1% of the variation in firm performance.

Table 4.22 illustrates ANOVA statistics results.

**Table 4.22: ANOVA results**

ANOVA	Sum of Squares	df	Mean Square	F	Sig.
Regression	317.500	4	79.375	9.699	.000*
Residual	703.797	86	8.184		
<b>Total</b>	<b>1021.297</b>	<b>90</b>			

a Predictors: (Constant), strategic learning culture, Innovation capability, technical knowledge capability, strategic service quality capability

**b Dependent Variable: Systemic Firm performance**

ANOVA statistics results revealed that there was a significant relationship between strategic learning culture, innovation capability, technical knowledge capability, strategic service quality capability and firm performance, at  $p < 0.05$  level of significance. Table 4.23 shows the regression coefficients for the model.

**Table 4.23: Regression coefficients**

Independent variables	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1. (Constant)	9.429	3.423		2.755	.007
2. Strategic innovations capability	.210	.166	.145	1.266	.209
3. Strategic technical knowledge capability	.522	.194	.343	2.689	.009
4. Strategic service quality capability	.07168	.193	.050	.372	.711
5. Strategic learning culture capability	.205	.181	.133	1.135	.260

**Dependent Variable: Firm performance**

As presented in Table 4.23 the estimated regression model is as follows:-

$$Y = 9.429 + 0.210X_1 + 0.522X_2 + 0.0717X_3 + 0.205 X_4$$

This means that firm performance is predicted to improve by 0.210 when strategic innovation capability goes up by one unit, improve by 0.522 when strategic technical

knowledge capability goes up by one unit, improve by 0.0717 when strategic service quality goes up by one unit and improve by 0.205 when strategic learning culture capability goes up by one unit. The regression analysis model clearly shows that all the four variables had a positive impact on firm performance. These findings were consistent with the results by Salim and Sulaiman (2011) who provided evidence that organizational learning contributes to innovation capability, and that innovation is positively related to firm performance. Research also indicates that the effect of organizational learning on firm performance is likely to be both direct and indirect because the creation of innovative culture through learning allows firm to achieve a better competitive position and above-average performance (Bates & Khasawneh, 2005). This means that a positive learning climate is valuable for firms that seek to outperform competitors through various innovation processes. In another study, Mose and Kibera (2015) established that there was a positive and significant overall linear relationship between service quality management practices and firm performance. This suggests that service quality management influences firm performance. Service quality management practices were measured in terms of top management commitment, employee management, customer orientation, quality information, reward and recognition and finally product/service design.

#### **4.10 Correlation Matrix**

To find out the relationship between independent variables of the study (strategic innovation capability, strategic technical knowledge capability, strategic service quality capability, strategic learning culture capability) and the dependent variable (firm performance), Pearson Product Moment Correlation analysis was conducted. This analysis was done by correlating the overall scores obtained by respondents on each variable on the scale across the overall scores on firm performance. The results of this analysis are presented in Table 4.24

**Table 4.24: Pearson Product Moment Correlation Matrix**

<b>Variables</b>	<b>Pearson Product Moment Correlation</b>	<b>Strategic innovation capability</b>	<b>Strategic technical knowledge</b>	<b>Strategic service quality</b>	<b>Strategic learning culture</b>	<b>Firm performance</b>
Strategic innovation capability	Pearson Correlation Sig. (2-tailed) N	1 .000 91	.600** .000 91	.522** .000 91	.247* .018 91	.243* .020 91
Strategic technical knowledge capability	Pearson Correlation Sig. (2-tailed) N	.600** .000 91	1 .000 91	.589** .000 91	.538** .000 91	.281** .007 91
Strategic service quality capability	Pearson Correlation Sig. (2-tailed) N	.522** .000 91	.589** .000 91	1 .000 91	.613 .000 91	.425** .000 91
Strategic learning culture capability	Pearson Correlation Sig. (2-tailed) N	.247* .018 91	.538** .000 91	.613** .000 91	1 .000 91	.383** .000 91
Firm Performance	Pearson Correlation Sig. (2-tailed) N	.243* .020 91	.281** .007 91	.425** .000 91	.383** .000 91	1 .000 91

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

**\* Correlation is significant at the 0.05 level (2-tailed).**

Pearson Product Moment Correlation analysis revealed that there was a significant relationship between strategic innovation capability, strategic technical knowledge capability, strategic service quality capability, strategic learning culture capability and firm performance, at  $p < 0.05$  level. The correlation coefficient ( $r$ ) was positive in all variables, meaning high scores on the independent variables correlated with high scores on the dependent variable and vice versa. These findings revealed that the four variables (strategic innovation capability, strategic technical knowledge capability, strategic service quality capability, strategic learning culture capability) positively influence firm performance.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter presents summary of the findings, conclusions and recommendations of the study. The chapter also provides indication of areas in need for further research as indicated below.

#### **5.2 Summary of the Findings**

The main objective of the study was to determine the influence of Strategic firm capabilities on performance of vendor managed medium and large supermarkets in Nairobi City County, Kenya. A survey of 116 senior managers in vendor managed medium and large supermarkets was conducted to establish the relationship between strategic firm capabilities and the performance of vendor managed medium and large supermarkets in the Nairobi City County. Questionnaires were administered to the respondents and ninety one (91) were filled, returned and analyzed by descriptive statistics, Pearson Product Moment Correlation and multiple linear regression.

The study established positive relationship between Strategic innovation capability, Strategic technical knowledge capability, Strategic service quality capability and Strategic learning culture capability and firm performance. The objectives of the study were hence realized as follows;

### **5.2.1 Specific Objective One: Influence of Strategic Innovation Capability on the systemic Performance of the Vendor Managed Retail Supermarkets**

In relation to this objective, the results of the analysis revealed that there was a significant influence of strategic innovation capability on firm performance. This influence was relatively weak meaning some of the vendor managed medium and large supermarkets were not putting emphasis on strategic innovation capabilities. The first hypothesis of the study which stated that there was no significant relationship between strategic innovation capability with firm performance of vendor managed retail medium and large supermarkets was thus rejected and its alternative form accepted. . The research question “To what extent does strategic innovation capability contribute to performance of the vendor managed medium and large retail supermarkets?” also answered by the study.

### **5.2.2 Specific Objective Two: Influence of Strategic Technical Knowledge Capability on Performance of the Vendor Managed Medium and Large Retail Supermarkets**

Pearson Product Moment Correlation revealed that there was a significant relationship between strategic technical knowledge capability and systemic firm performance. The correlation coefficient was positive meaning that an increase in scores on strategic technical knowledge capability correlated with an increase in scores on firm performance. This implies that strategic technical knowledge capability had a positive impact on firm performance in vendor managed medium and large retail supermarkets. The second hypothesis of the study which stated that there was no significant relationship between strategic technical knowledge capability with firm performance of vendor managed retail medium and large supermarkets was thus rejected and its alternative form accepted. The research question “To what extent does strategic technical knowledge capability contribute to performance of the vendor managed medium and large retail supermarkets?” also answered by the study.

### **5.2.3 Specific Objective Three: Influence of Strategic Quality Service Capability on Performance of Vendor Managed Medium and Large Retail Supermarkets**

The results of the analysis showed that there was a significant relationship between strategic quality service capability and firm performance. The correlation coefficient  $r = 0.425$  was positive, meaning strategic service quality capability had a positive impact on firm performance. Consequently, the third hypothesis of the study which stated that; strategic quality service capability does not significantly influence firm performance of vendor managed medium and large retail supermarkets was rejected and its alternate form accepted. The research question “To what extent does strategic quality service capability contribute to performance of the vendor managed medium and large retail supermarkets?” also answered by the study.

### **5.2.4 Specific Objective Four: Influence of Strategic Learning Culture Capability on the Performance of the Vendor Managed Medium and Large Retail Supermarkets**

Correlation analysis results revealed that there was a significant relationship between strategic learning culture capability and systemic firm performance. This means that strategic learning culture capability had a positive impact on firm performance hence the fourth specific objective established. Additionally the fourth hypothesis of the study which stated that there was no significant relationship between strategic learning culture capability with firm performance of vendor managed retail medium and large supermarkets was thus rejected and its alternative form accepted. The research question “ To what extent does strategic learning culture capability contribute to performance of the vendor managed medium and large retail supermarkets?” was therefore answered by the findings.

### 5.3 Conclusions

Based on the findings presented above, the following conclusions were made:-

Strategic innovation capability contributes to profitability of the vendor managed retail firms. The results of this study revealed the following;

1. That strategic innovations capability had a statistically significant positive effect on vendor managed retail firm performance and therefore an increase in a unit of strategic innovations capability will lead to a unit increase in vendor managed retail firm performance. So, preparedness in market demand and positioning products in line with foreseen market needs will enable vendor managed medium and large supermarkets to perform better in the market. Further, enhancing research and development activities enables innovative activities which place products in forms that are better and more appealing to the target customer clientele. With better performing products in the market, the vendor managed medium and large supermarkets will realize increased profitability, business growth, enhanced customer satisfaction, employee satisfaction and the competitive position of the sector in the economy as revealed in the study.
2. The study findings led the researcher to conclude that strategic technical knowledge capability contributes to performance of the vendor managed medium and large supermarkets. Acquisition of knowledge from within and outside the organization facilitates competitive advantage through better product handling, market positioning, product knowledge and market maneuvers that enable the sector to realize superior performance. Further promotion of talents and skills in the vendor managed medium and large supermarkets facilitates creativity in terms of new and better ways of product positioning and handling to work towards superior performance. However, a weak correlation between strategic technical knowledge capability and performance of the vendor managed medium and large supermarkets shows that much still need to be done to ensure that the

supermarkets have improved their injection of strategic technical knowledge capability in the running of the retail sector.

3. The study established that Strategic service quality capability had a positive impact on firm performance. This implies that a unit increase of strategic service quality capability will lead to a unit increase in vendor managed retail firms' performance. Targeting better services to the customer clientele will lead to increase in systemic firm performance through increased profitability, business growth/expansion, customer satisfaction, employee satisfaction and enhanced overall firm competitiveness in the current or future market. Further, delivery of value through prior establishment of customer service preferences will built loyalty and support and directly promote systemic firm performance through increased profitability, business growth, enhanced customer satisfaction, employee satisfaction and the competitive position of the sector in the economy as revealed in the study.
4. The study revealed significant relationship between strategic learning culture capability and firm performance. This means that a unit increase in application of strategic learning culture capability in the supermarket will cause a unit increase in systemic firm performance. Therefore, thinking with the overall organizational objective needs to be encouraged since promotion of the same enhances firm performance through increased profitability, business growth, enhanced customer satisfaction, employee satisfaction and the enhanced competitive position of the sector in the economy as revealed in the study. Further promotion of team learning creates opportunities for the staff in the entire organization to develop skills and attitudes that enhance productivity and superior system-wide performance as revealed by the study.

Ultimately therefore promotion of Strategic learning culture, Strategic technical knowledge, Strategic service quality and Strategic learning culture capabilities amongst vendor managed medium and large supermarkets in the Nairobi city county in Kenya will build competitive advantage in the sector and the resultant superior performance.

## **5.4 Recommendations of the Study**

Arising from the study findings, the following recommendations have been derived:-

### **5.4.1 Managerial Recommendations**

Since the study established that strategic innovation capability, technical knowledge, service quality capability and learning culture had a positive impact on firm performance. The study recommends that top managers should regularly undergo in-service training on these areas to ensure that they offer effective managerial direction for the retail firms and realize superior firm performance besides remaining competitive in the market; efficient in terms of service delivery and also being capable of meeting customers' demands. Top managers should also promote the strategic culture of critical thinking in the firm to generate new ideas, new ways of working and new products among others. Another recommendation is that managers of both medium and large firms should ensure that their employees develop new skills and share existing knowledge within the organization. This can be achieved by ensuring that top management bodies create and promote a conducive environment which enhances employees' willingness to learn from each other. The study also proposes that managers should conduct training and retraining of human capital in the medium and large supermarkets on the adoption and implementation of firm strategic capabilities to counter external competition and remain competitive. Finally, the study recommends that vendor managed retail firms should have in place vibrant, foresighted and outward looking research and development units to develop new and better ideas for the retail firms to ensure they remain competitive.

### **5.4.2 Policy Recommendations**

Policy makers should provide incentives to the retail sector to promote development and or adoption of these strategic capabilities. Additionally, the policy makers should consider stakeholder involvement in new policy development to ensure that the

development of strategic firm capabilities grows in sync with new policies to avoid losing out. Finally, the industry regulators should develop a framework to help vendor managed medium and large supermarkets to adopt strategic capabilities hence improving their performance.

### **5.5 Areas for Further Research**

The research explored the influence of strategic firm capabilities on systemic performance of vendor managed medium and large supermarkets in Nairobi City County. Whereas the study came up with useful findings as indicated above, an analysis of the research objectives and scope with regard to constraints of the study have guided the researcher to come up with recommendations for further research as follows; The study recommends that future studies be enlarged in scope to look into adoption of strategic capabilities in different sectors or industries and different firm sizes. The studies should also delve deeply into establishing the moderating effect of organizational culture on innovation and service quality capabilities and its impact on performance. Further studies should also be conducted to find out the moderating effect of learning culture and the firm`s strategic knowledge assets within an organization on strategic firm innovations and its effects on organizational performance. Additionally, studies should be conducted with the aim of establishing the influence of independent sub-variables on the dependent sub-variables of this study. Finally, the study proposes for other studies to be conducted with an aim of examining the drivers and challenges of adopting strategic firm capabilities by the vendor managed medium and large supermarkets since they are vital for their future survival and excellence in the market.

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## APPENDICES

### Appendix I: Questionnaire

#### Section A: General Questions

1) Kindly indicate your position in the company?

Manager

Management staff

Other (specify).....

2) Indicate the number of years that you have worked in this company?

0-4 Years  5-9 Years

10-14 Years  Over 15 Years

3) Indicate your Gender

Male  Female

4) How many years has this supermarket been in operation?

0-4 Years  5-9 Years

10-14 Years  Over 15 Years

5) How would you classify this supermarket?

Medium  Large

6) To what extent do you think the valuable, rare and difficult to imitate capabilities of this supermarket contribute to profitability in your supermarket?

To no extent  To a little extent  To a moderate extent

To a great extent  To a very great extent

**Section B: Strategic Innovations Capability**

7) To what extent do you agree with the following statements about the valuable, rare and difficult to imitate innovations capability of this Supermarket and its contribution to profitability? Use a scale of 1 to 5 where 1 is strongly disagree and 5 is strongly agree.

Statement	1	2	3	4	5
1. We regularly consider the consequences of changing market demands in terms of new products and services					
2. We have clear processes in place for the development of new products and services.					
3. The overall performance of our new product/service development program has met our objectives.					
4. From an overall profitability stand point, our new product development program has been successful.					
5. We have invested adequately in research and development					

8) In general, to what extent do you think the valuable, rare and difficult to imitate innovations capability of this Supermarket contributes to its performance?

- To no extent
- To a little extent
- To a moderate extent
- To a great extent
- To a very great extent

**Section C: Strategic Technical Knowledge Capability**

9) To what extent do you agree with the following statements about the valuable, rare and difficult to imitate technical knowledge in this Supermarket and its contribution to profitability? Use a scale of 1 to 5 where 1 is strongly disagree and 5 is strongly agree.

Statement	1	2	3	4	5
1. Our supermarket regularly looks outside of our organization’s boundaries to acquire new knowledge					
2. Our supermarket prefers to rely on knowledge that originated within our organization rather than seek out knowledge that originated outside of our firm’s boundaries.					
3. Our Management periodically organizes special meetings with customers or third parties to acquire new knowledge.					
4. Company Employees are assigned to regularly interact with third parties such as competitors, consultants, partner organizations, newly acquired organizations, and newly hired employees to acquire new knowledge for the firm.					

5. In general, to what extent do you think the valuable, rare and difficult to imitate technical knowledge by this Supermarket contributes to its performance?

To no extent

To a little extent

To a moderate extent

To a great extent

To a very great extent

**Section D: Strategic Service Quality Capability**

6. To what extent do you agree with the following statements about the valuable, rare and difficult to imitate quality service in this Supermarket its contribution to profitability? Use a scale of 1 to 5 where 1 is strongly disagree and 5 is strongly agree.

Statement	1	2	3	4	5
1. Our employees have a common language regarding our products and services.					
2. Our products are tailored to a specific target customers					
3. We differentiate ourselves from competing alternatives in terms of service delivery					
4. We create value for our customers					
5. We have a service charter that guides service delivery					

7. In general, to what extent do you think the valuable, rare and difficult to imitate service quality by this Supermarket contributes to its performance?

- To no extent [ ]
- To a little extent [ ]
- To a moderate extent [ ]
- To a great extent [ ]
- To a very great extent [ ]

**Section E: Strategic Learning Culture Capability**

8. To what extent do you agree with the following statements about the valuable, rare and difficult to imitate learning culture capability of this Supermarket and its contribution to profitability? Use a scale of 1 to 5 where 1 is strongly disagree and 5 is strongly agree.

<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
1. We have systems thinking in this supermarket					
2. We have encouraged personal mastery in this supermarket					
3. We have shared mental models on how the firm should operate					
4. We have shared vision on where we want to be as an organization					
5. There is team learning in this firm					

6. To what extent has the valuable, rare and difficult to imitate learning culture capability of this supermarket contributed to its performance?

To no extent [ ]

To a little extent [ ]

To a moderate extent [ ]

To a great extent [ ]

To a very great extent [ ]

**Section F: Firm Performance**

7. To what extent do you agree with the following statements about the performance of this Supermarket? Use a scale of 1 to 5 where 1 is strongly disagree and 5 is strongly agree.

Statement	1	2	3	4	5
1. We have increased the number of employees					
2. We have increased the number of products and services offered in this supermarket					
3. We have increased our sales					
4. We have better profits than before					
5. We have increased number of customers					
6. We have expanded on customer reach					
7. We are more efficient in service delivery					

8. How would you describe the profitability of this supermarket in the last three years?

Very low [ ] Low [ ] Average [ ]

High [ ] Very high [ ]

9. Kindly indicate the profitability of this supermarket in percentage.

Less than 10% [ ] 10%-30% [ ] 31%-50% [ ]

51%-70% [ ] 71%-90% [ ] 91%-Over 100% [ ]

**Appendix II: List of Medium and Large Vendor Managed Supermarkets in Nairobi**

1.	Chandarana Supermarkets Ltd	Mobil Plaza GrdFlr, Muthaiga Road
2.	Ebrahim & Co Ltd	Moi Avenue
3.	Esajo Supermarket	Nairobi
4.	Express Supermarkets	Riruta Shopping Centre, Naivasha Road
5.	Fairprice Self Select Store	Embakasi Road
6.	Fairrose Supermarket Ltd	Chai House GrdFlr, Koinange Street
7.	Gigiri Supermarket	Gigiri Shopping Centre, United Nations Avenue
8.	Green Forest Supermarkets Ltds	Moi Drive
9.	Guestcare Supermarket	Rose Garden Nairobi
10.	Guestcare Supermarket	18th Street Nairobi
11.	Homebound Supermarket	Kitengela Road
12.	Jack & Jill Extravaganza Ltd	Haile Selassie Avenue
13.	Jack & Jill Supermarket Ltd	Race Course Road
14.	Karen Supermarket	Nairobi
15.	Kenton Supermarket	Nairobi
16.	Kikomba Mattress Limited	J.J. Shah & others GrdFlr, New Pumwani Road
17.	Langata Grocers Ltd	Hardy Building Tembo Road
18.	Leadway Supermarkets Ltd	Thika Road
19.	Lucy Stop Supermarket	Brilliant Hotel Gr. Floor, Muranga Road
20.	Makenia Mini Supermarket	Kahore Traders Building GrdFlr, Muhoho Avenue
21.	Mumsies Supermarket	Major Kinyanjui Street, Off Easteleigh Avenue
22.	Muthaite Trading Co. Ltd	Muthaiti Avenue
23.	My Economy Supermarkets Ltd	Kibera Drive
24.	Nakumatt Holdings Ltd	Nairobi
25.	Nakumatt Mega	GrdFlr, Uhuru Highway
26.	Nakumatt Check Point	Kenyatta Avenue
27.	Nakumatt Embakasi	Nairobi
28.	Nakumatt Village Market	Village Market Complex
29.	Nakumatt Ukay Centre	Ukay Centre, Ring Road
30.	New Westland Stores Ltd	Waiyaki Way
31.	Nine To Nine Supermarket	Diamond Plaza Grd. Flr Masari Road
32.	Njewa Supermarkets	Crafty Hand Plaza GrdFlr, Kamunde Road
33.	Nova Supermarkets Ltd	Komarock/Kayole Rd
34.	Nuru Supermarket	Nairobi
35.	Nyeri Supermarket Ltd	Nairobi
36.	Ongata Rongai Supermarket	Nairobi
37.	Park & Shop Supermarket Ltd	Super House Outer Ring Road

38.	Poravim Supermarket	Maasai Shopping Centre, Kitengela Road
39.	Portway Stores Ltd	Uhuru Highway
40.	Raken Supermarket Ltd	Ngong Road
41.	Ridgeways Supermarket	Ridgeways Road, Off Kiambu Road
42.	Ridhika Supermarket	Rabai Road Estate, Off Rabai Road
43.	Right Supermarket & Wholesalers	Birongo square, Muthaite Street
44.	Sainbury Sales Services Store	Lavington Green Centre GrdFlr, James Gichuru Road
45.	Supervalu Supermarkets	Harlinggham Shopping Centre Ground, Argwings Kodhek Road
46.	Tuskys Mattresses	Pioneer Hpuse GrdFlr, Moi Avenue
47.	Tuskys Mattresses	GrdFlr Hakati Road
48.	Tuskys Mattresses	OTC GrdFlr, Ukwala Road
49.	Uchumi Supermarkets	Buru Buru Shopping Centre, South Mumias Road
50.	Uchumi Supermarkets	City Square
51.	Uchumi Supermarkets	Jogoo Road
52.	Uchumi Supermarkets	Kimathi
53.	Uchumi Supermarkets	Langata
54.	Uchumi Supermarkets	Langata Hyper
55.	Uchumi Supermarkets	Market Branch
56.	Uchumi Supermarkets	Ngong Hyper
57.	Uchumi Supermarkets	Sarit center
58.	Ukwala Supermarkets	Tom Moby Street

Source: Nairobi City County (2015)