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Competitive Strategies, Entrepreneurial Orientation, External Environment and Performance of Small and Medium Enterprises in the Manufacturing Sector in Kenya: A critical Literature Review

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ABSTRACT

The purpose of this paper was to establish the influence of entrepreneurial orientation and external environment on the relationship between competitive strategies and performance of small and medium enterprises in the manufacturing sector in Kenya. Small and medium enterprises (SMEs) play crucial roles in many economies all over the world. SMEs are critical for developing countries because of their intensity is much higher than that of the large enterprises. They also contribute to government revenue through payment of various taxes. The study was anchored on resource based theory and supported by game theory, open system theory and dynamic capabilities theory which provide a framework for examining the association between research variables. Resource based theory lays emphasis on the internal resources of a firm in developing its strategy to achieve a sustainable competitive advantage in its markets and industry. The study found that small and medium enterprises performance is affected by a variety of interrelated factors which should be taken into consideration in order to achieve success and to avoid business failure. This study concludes that entrepreneurial orientation and environment have impact on competitive strategies adopted to improve performance.

Keywords: Competitive Strategies, Entrepreneurial Orientation, External Environment, Firm Performance, Resource Based Theory.

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1. Introduction

Small and medium enterprises (SMES) forms the vanguard of the modern enterprises sector and present the propelling force of economic modernization and growth of a country (Aremu 2004). SME sector is the main driving force behind job creation, poverty reduction, wealth creation, income

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distribution and sustainable development. A firm's competitive advantage depends on internal heterogeneous resources and capabilities (Barney 1991; Conner and Prahalad 1996). A firm's competitive strategies should be aligned to specific elements in the environment that influence access to resources (Zhilong et al., 2009). Performance can be achieved through enterprises adopting best combination of competitive strategies (Gomez, 2006; Rauf, 2007; Yuan-Yao et al., 2009; Bruton et al., 2010). Research shows a strong relationship between competitive strategies and firm performance (Kristiansen et al., 2003; Gaebler, 2007; Westerberg & Wincent, 2008; Islam et al., 2011). However, the effects of competitive strategies on firm performance need to be examined on the basis of the firm's external environment and entrepreneurial orientation. SMES need to re-think competitive strategic models to counter the turbulent environment and put in place some winning strategies to achieve their goals (Peng et al., 2008; Machuki et al., 2012).

This study was anchored on resource-based theory and supported by game theory, Open systems theory and Dynamic capabilities theory which provides a framework for examining the association between competitive strategies, entrepreneurial orientation, external environment and performance of small and medium enterprises. The resource based view (RBV) argues that constant competitive advantage is made by the inimitable bundle of resources at the firm's hub (Barney, 1991; Conner & Prahalad, 1996). For balanced conduct of individual organization challenged with strategic decisions a normative guide is provided by Game theory (Netessine & Shumsky, 2001). The promoters of open systems theory suggest that changes and occurrences in the enterprises external environment affect their businesses activities, since enterprises ideally are dependent on the environment (Ansoff and Mc Donnell, 1990) and finally the dynamic capability theory explains how organizational responsiveness and innovativeness through entrepreneurial orientation become timely, rapid and flexible in dynamic markets (Barreto, 2010; Di Stefano, Peteraf & Verona, 2010). Therefore these theories provide a strong underpinning for understanding the interaction of the variables in this study.

Over the past two decades the Kenyan economic landscape has experienced considerable changes which have impacted manufacturing sector negatively. SMEs in the manufacturing sector are faced with increased competition as a result of globalization, regional integration, weak capital outlays, low level of innovation and nonmarket challenges. Studies indicate that in both developed and developing economies SMEs contribute to an average of sixty percent of total employment (Ayyagari, et al, 2000; Brown and Harris 2010). The debate on improvement of performance of SMEs in the manufacturing sector in Kenya is very important because these firms are expected to play a vital role to drive the country to a middle level income by 2030. Studies carried out in other countries have recommended that enterprise performance will improve if competitive strategies are aligned to specific elements in the environment. However limited studies in the area of competitive strategies, entrepreneurial orientation, external environment and performance of SMEs in manufacturing sector in Kenya. This is what has motivated the researchers to carry out this study.

1.1 Competitive strategies

Various studies have defined strategy differently; according to Salovou (2015) strategy, is a deliberate set of activities put in order to achieve competitive advantage. Further Pulaj, Kume and Cipi (2015) define strategy as the determination of long-term objectives, implementation of courses of action and apportionment of resources required for achieving the objectives. Competitive or business strategy depicts the foundation on which a business will compete. Justinians (2015) refer to strategy as the firm's competitive game plan or a pattern of choices that are designated and implemented to attain a sustainable competitive advantage within a given environment.

For enterprises to realize competitive advantage, they are obligated to make strategic choices on the design of competitive advantage they seek to reach as well as the range within which it will accomplish it (Ogot, 2015). In realizing performance, selecting the competitive scope or the variety of the firm's activities will play a powerful part since it aims at establishing a profitable and viable position against the powers that regulate industry competition. Strategic choice decisions that a firm can pursue to achieve competitive advantage for growth may broadly be categorized into intensive, defensive, joint venture and a combination of strategies. Depending on the competitive environment enterprises choose strategies that are able to give them sustainable competitive advantage (Leitner & Guldenberg, 2010).

Shigang (2010) observed Porter's framework to be the dominant tool when analyzing policies of enterprises. Therefore, Porter's three generic strategies are better suited for application in the analysis of competitiveness and performance of the targeted SMEs by this study. Competitive strategies in this study are therefore conceptualized as cost leadership, differentiation and focus. The Porter generic strategy framework has strong theoretical underpinnings and provides a business strategy idea that integrates a few dimensions, efficiency, differentiation and scale/ scope (Grant, 2016). Strategic strategies mirror firm's subjective orientations and attitudes (Shigang, 2010). These developments inform an emerging line of thinking to be investigated that competitive strategy plays a major role in the performance of SME.

1.2 Entrepreneurial orientation

Several studies have defined entrepreneurial orientation in different perspectives. According to Leitoa and Franco (2011) entrepreneurial orientation is depicted as the practice and activities in organizations which engross in entrepreneurial behaviors and activities. They contend that a firm's extent of entrepreneurship is realized at the degree at which it innovates, takes risks and acts dynamically. Nyasetia (2013) adds two other dimensions of entrepreneurial orientation as salient; competitive aggressiveness and autonomy. This latter aspect is used to measure how entrepreneurial enterprises manage their threats. However according to Ryan, Tipu and Zeffane (2012) the dimensions of entrepreneurial orientation are widely acknowledged as innovation, risk taking and proactiveness.

Many scholars have adopted EO definitions similar to that of Miller (1983) and Covin and Slevin (1989, 1990), but others have made changes that alter the meaning of the construct. The most common deviations from Su (2013) conceptualization are the use of more or less dimensions or the application of the EO construct in a different context (George and Marino, 2011). For example, Chen, Du and Chen (2011) have limited the construct by focusing only on pro-activeness and innovation and therefore exclude risk taking. Furthermore, Earland (2013) only focus on the actions of business units and to innovations that result in new offerings, instead of for example process improvements. By contrast, Leitoa and Franco (2011) have extended the construct by including two dimensions. The EO construct consists therefore of the dimensions innovativeness, risk taking, pro-activeness, competitive aggressiveness and autonomy.

Further, Nyasetia (2013) have extended the domain by suggesting that "an EO refers to the processes, practices and decision-making activities that lead to new-entry". This is in contrast with Covin and Slevin (1988) who suggest that EO is a strategic attitude reflecting the decisions and processes of the firm, but not explicitly limited to those that lead to new entry, but rather representative of an overall gestalt within an organization. Since Lumpkin and Dess (1996) conceptualization there have been no significant or widely acknowledged adoptions to how the EO construct can or should be conceptualized (Covin and Wales, 2011).

1.3 External environment

A firm's external environment is defined by several studies such as Pearce et al., (2012); Hitt et al., (2011); Machuki and Aosa, (2011) as a firm's aggregate of external aspects that have effects on its functioning. It is the cause of constraints, contingencies, complications and opportunities that affect the terms on which enterprises transacts business. It also referred to as the remote environment, comprises of factors that originate beyond and usually irrespective of any enterprises operating situation (Hitt, Ireland & Hoskinson, 2011). No enterprise can operate in the absence of environmental constraints or restrictions imposed by the firm's surroundings. Since the process of decision making within environment is never ending, regular reassessment of the strategic factors must be enacted (Adeoye and Elegunde, 2012).

Dimensional front of the environment as a construct is described in terms of munificence, complexity and dynamism. The dynamic nature of elements within the environment, today, provides a challenge for determining which environment to choose, when to enact it and how to navigate through it. It is the ever changing nature that transforms the purpose of the firm and the environment in which it operates (Mc Mahon and Carr, 1999). Environmental munificence is the scarcity or abundance of critical resources by one or more enterprises operating within an environment (Castrogiovanni, 1991)

and thus an important variable that affects a firm's operations. When resources are abundant, enterprises would easily survive, however, when they become scarce, competition would intensify affecting profitability and firm slack Porter, (1980) and overall performance. The environment in which enterprises compete is dynamic and rapidly changing, compelling enterprises perception and appreciation of the external environment to play a critical role in strategic management. While performance can be affected directly by environment, it will largely be influenced by the capabilities in the response to the changes in the external environment.

1.4 Firm performance

Firm performance is defined as a firm's ability to achieve planned results as measured against its intended outputs and encompasses outcomes related to financial performance, market performance and shareholder return (Richard et al., 2009). Firm performance, a common concept in strategic management research is often used as a dependent variable. However, research has presented disagreement and selection of indicators constructed on suitability as well as slight concern of its extent (Marn & Romualid, 2012).

Explaining and often predicting firm performance is a primary research objective in the field of entrepreneurship because the purpose of any firm is to meet its intended objectives, goals and outputs (Nunoo et al, 2012). Firm performance is directly influenced by competitive strategies (Hieltjes et al., 2013). A study by Nunoo et al., (2012) rejected the argument that firm performance is based solely on competitive strategies and supported instead the claim that it depends also on entrepreneurial orientation and the environment in which they function.

Industrial economists argue that performance differences among enterprises can be explained as arising from factors which are firm-specific and those which are industry specific (Capon et al 1990). Management theories of firm performance, pioneered by the work of Porter (1979) argued that firm performance is determined by competitive strategy which is derived from the industry in which the firm operated and the enterprises position in the industry.

Measures of firm performance include both financial and non-financial indicators. Financial indicators include profitability indicators such as return on investment (ROI), return on asset (ROA), return on sales (ROS) return on equity (ROE) operational efficiency and market share (Gentry et al, 2010). Non-financial procedures include job gratification, commitment in an organization, employee turnover, entrepreneur satisfaction and longevity of the firm (Mahapatro, 2010). Based on research, it is clear that there is a direct linear relationship between competitive strategies and firm performance. Studies by Okeyo, Gathugu & Kobonyo (2014) Wanjohi and Mugure (2008), Waema et al. (2009) and Bowen et al. (2009) looked at the outcome of entrepreneurial orientation on firm performance as well as external environment and performance. Machuki and Aosa (2011) contend that the external environment affected firm performance. The studies therefore present conceptual, contextual and methodological gaps to be filled by the current study.

1.5 Small and medium enterprises in manufacturing sector

Small and medium enterprises in manufacturing sector are key for economic development of Kenya. In recognition of this role, the government enacted several bodies including micro and small Enterprises Authority, Kenya association of Manufacturers and Ministry of Industrialization and Enterprise Development. These bodies aimed at providing an enabling policy and legal environment for manufacturing enterprises and enables manufacturing enterprises in SMEs with great opportunities in form of access to finances, expertise, markets both local and international and even negotiate bilateral ties with other regions in the economic blocs. Despite vast potential of such enterprises, they are poorly organized with most of them remaining informal and uncompetitive.

Distinctly less focus has been placed by studies on SMEs in manufacturing enterprises resulting in most of them operating without the benefit of homegrown solutions for improved competitiveness and performance. Studies done have not clearly demonstrated how to intergrate factors including competitive strategies, entrepreneurial orientation and macro environment to their performance and the sector is still characterized by low graduation and high failure rates which impede their potential to contribute to economic development (Bowen, 2009). Weak competitive strategies have been

identified as one of the determinants of the poor performance among small and medium enterprises in manufacturing sector (Hieljes et al, 2013).

According to Casals (2011), globalization of the markets and increasing international competition have forced SMEs need to consider continuously improving production costs, delivery schedules, manufacturing skills, supplier relationship and productivity in all practices. These self – directed actions are in essence entrepreneurial orientation. Part of the reason of carrying out this study is that many of Entrepreneurial Orientation-firm performance relationship studies have been conducted in developed countries. In developed countries. Their findings may not be applicable for firms in developing economies like ours. Thomas and Mueller (2000) argued that certain aspects of Entrepreneurial Orientation may differ across countries while Sobirin and Rosid (2015) suggested that national culture may affect Entrepreneurial orientation adoption. Among the studies conducted locally, none has focused on Entrepreneurial orientation in manufacturing SMEs.

1.6 Objective of the study

The objective of the study was to determine the influence of entrepreneurial orientation and external environment on the relationship between competitive strategies and performance of small and medium enterprises in the manufacturing sector in Kenya.

1.7 Value of the study

This study is envisaged to enhance the development and building of existing theories by confirming and refuting theoretical propositions, assumptions and critiques arising from theories like open systems theory, dynamic capabilities theory and resource based theory which offers the theoretical framework of study. This can be achieved by providing a framework on the insight of the joint relationship between competitive strategies, macro environment and entrepreneurial orientation and also improving on the studies done under the variables contributing to the available body of knowledge for learning, improved creativity, innovativeness and improved performance.

1.8 Methodology

Based on a systematic review of scholarly work relevant to study variables. Gay, mills and Airasian, (2006) posited that literature review requires the logical identification sorting and analyses of documents with relevance to study variables. The study discusses the theories conceptualizing the variables and also review of empirical evidence based on the key variables. The study, identifies knowledge gaps and presents a conceptual framework.

2. Literature review

The variables considered in this paper are competitive strategies as an independent variable and anchored on resource based theory, external environment as the moderating variable which is anchored on the open system theory, entrepreneurial orientation as the intervening variable which is anchored on Dynamic Capability Theory and firm performance as the dependent variable anchored on Game Theory. Both the theoretical assumptions, their critique and how they relate to the study variables is well articulated.

2.1 Resource-based theory

This study was anchored on resource- based theory which is a general theory of strategic management and entrepreneurship. Entrepreneurs develop strategies based on the resources available in the firm and also based on the environmental conditions and also the proactiveness and innovative nature of the entrepreneurs. The resource based view (RBV) argues that distinct bundle of resources are fundamental as the firm generates sustained competitive advantage (Barney, 1991; Conner & Prahalad, 1996). The theory describes how entrepreneurs form businesses from available resources and capabilities (Dollinger, 1999). Sustainable competitive advantage can be attained by enterprises resources such as strategic capabilities such as financial, physical, human, technological, reputational, processes, information and knowledge (Michalisin et al., 1997, Polanyi, 1966, Castanias & Helft, 1991, Wernerfelt, 1984).

The RBV holds that to harmonize human effort acquisition human effort acquisition ability, to effectively engage and to efficiently preserve intangible and tangible resources may serve as the basis of the firm's policy and therefore, its foundation for realizing the performance (Echols, 2000). Its objective is identifying how to sustain a competitive advantage (Barney, 1989, 1991). The main assumptions of RBV states that any firm may secure sustainable advantage by devising strategic capabilities and pertinent resources which are precise (Helfat, 1994), durable (Mahoney & Pandian, 1992), intangible, valuable, rare and unable to be either substituted or imitated (Barney, 1991), and / or are untradeable and static (Dierickx & Cool, 1989). In the case of SMEs in manufacturing sector. RBV is critical since it addresses resources and capabilities of a firm as key to its performance, it was therefore found to be an appropriate theory to be used in this study.

2.2 Game theory

The game theoretic model is a simulation model for strategic relations in a contention state involving two players, each centering on the rival behavior in an effort to antedate their probable action to decide their own (Furrer and Thomas 2000). The assumption of rational behavior, builds the model which is common to majority of microeconomic models. Nevertheless, game theoretic models go further than the limiting rationality conjecture of micro- economic models to incorporate an extensive range of strategic intent (Saloner, 1991).

Game theory, a mathematical theory of generating decision by contestants in contradicting or collaborating circumstances, aims to enlighten and to offer a normative guide for logical conduct of participants faced with strategic resolutions (Netessine & Shumsky, 2001). This theory comprises of optimal strategic conduct, balanced situations, stable outcomes, bargaining, coalition creation, fair distribution and a like notion connected to fixing group variances. Game theory has a reflective influence on methodologies of various diverse branches of sciences, particularly those of economic, operations research and management sciences (Rasmusen, 2001). In small and medium enterprises in manufacturing enterprises therefore, dilemma and rivalry are the order of the day and therefore the anticipated performance by the enterprises must be analyzed in line with differentiating their performance depending on how well opportunities are exploited and challenges overcome just as underpinned by this theory.

2.3 Open systems theory

The proponents of open systems theory suggest that as enterprises perform their trades, they will be subjected by events and changes in their external environments. This is so since enterprises are environment serving and reliant (Ansoff and McDonell, 1990). Organizations are open schemes that need careful management to gratify and stabilize internal needs and adapt to external circumstances (Burnes, 2000). Open systems theory argues that organizations are strongly influenced by their environment for change and survival. This theory explains how strategy helps an organization to achieve sustainable competitive advantage. Thus, survival of organizations relies on its affiliation with the environment. Organizational performance is vastly associated to the vibrant evolutionary nature of the fit amid the environment and the organization (Machuki and Aosa, 2011). For any organization to thrive, they must constantly interact with the ever changing external environment. Organizations exist in open systems. This theory asserts that corporations cannot work as closed systems since they are environmentally serving and reliant (Ansoff and MC Donnell, 1990). Hence, this theory is crucial in this study as it explains the effects of external environment on the relationship between competitive strategies and firm performance.

2.4 Dynamic capabilities theory

Dynamic capability theory explains how organizational responsiveness and innovativeness through entrepreneurial orientation become timely, rapid and flexible in dynamic markets. Based on a review and synthesis of the literature, dynamic capability is depicted as organization's capability to analytically solve issues created by its propensity to perceive opportunities and ultimatum, make appropriate policies that are market- oriented to modify its resource foundation (Di Stefano, Peteraf & Verona, 2010; Barreto, 2010).

Easterby, Lyles' and Peteraf (2009) contend that dynamic capabilities are higher-level capabilities that aid knowledge convention and sharing, constant modification of the operational procedures, interrelation with the environment and application of suitable entrepreneurial orientation practices. In the case of manufacturing SMEs the theoretical perspective according to the theory may be driven by management fads such as change of culture, engineering business process, empowerment, total quality, dramatic changes within the environment to boost the overall performance.

2.5 Competitive strategy and firm performance

There is empirical evidence among some studies that strategy impacts on firm performance. Studies (Gibcus & Kemp, 2003; Peng et al., 2008) established that strategies pursued by enterprises have a direct and strong influence on their performance. Moreover, it is contended that enterprises with a comprehensive and steady strategy out-perform enterprises with no strategy (Gibcus & Kemp, 2003). Generally, strategy is said to have a positive relation with the success of a firm. To institute a connection among competitive strategy and performance, Porter (1991) stated three sets of set ups that would effect a steady action plan and ultimately excellent firm production to include progress and enactment of an internally steady set of goals and efficient approaches that together illustrates a firm's position in the market; aligning firm' strength and weakness with the external (industry) opportunities and threats; and creation and utilization of the firm's distinctive competences. Porter (1980) posited that entrepreneurial type actions are associated closely with differentiation strategies as opposed to low- cost leadership plan. Such observation was reinforced by other studies (Pelham, 1999; Gibcus & Kemp, 2003).

Pelham (1999) contended that highlight on a low- cost plan would have lesser influence as opposed to emphasis on a differentiation strategy which would yield better performance for SMEs. Observations have demonstrated that to make a difference in performance, the type of strategy applied really matters. Bowen et al., (2009) in their research on ways to overcome business challenges amongst SMEs in Nairobi, assessed strategies they employed to overcome the challenges. Bowen et al used stratified random sampling to assemble data from 198 enterprises. The findings indicated that SMEs had the following approaches to conquer shortcomings; discounts and special offers, fair pricing, greater customer service, presenting a variety of services and products and constantly improving superiority of service delivery. Based on the findings, Bowen et al., (2009) concluded that business prosperity is an outcome of embracing a mix of policies.

Other studies have found feeble relations amongst strategy and performance. Teach and Schwartz (2000) contend that strategy and performance are at best weakly associated. Similarly, studies (Kemp & Verhoeven, 2002) advocate no association amongst strategy and performance. How strategy impacts on performance is still not clearly outlined from the foregoing. However, administrators of the enterprises have to be certain that they have the accurate plan so as to be competitive.

2.6 Competitive strategies, entrepreneurial orientation and firm performance

Progress of competitive and robust small and medium enterprises (SMEs) outlines a vital element of Kenya's project to be worldwide competitive and successful nation with a high standard of life by 2030 (GoK, 2008). SMEs are required to raise efficiency levels and act timely to market changes with the shortcomings brought about by new entrants to the market, increased liberalization, technological progress and high standards requirements.

Furthermore, greater incorporation into the global economy offers openings for SMEs to partake in the international value chain and supply chains networks. All these effort are aimed to facilitate SMEs move up the value chain as well as embrace new technologies, especially information and communication technology (ICT). SMEs which are able to harness technology and knowledge to come up with high value -added goods of superior quality are the only ones that will be able to compete globally (GoK, 2008). It is certain that quality has arisen as a tactical competitive tool for firm's prosperity. In the current business environment, corporations cannot give chance in overlooking the strategic effects of quality for its competitive position (Rogitratana & Boon-Itt, 2011).

2.7 Competitive strategies, external environment and firm performance

Perceiving, understanding and responding to environmental upheavals have implications on competitive strategies and performance on every organization. Empirical evidence on the influence of external environment on the relationship between competitive strategies and firm performance indicates that environment is a source of opportunities and threats for all organizations (Pearce & Robinson, 2011). Environmental scanning, a critical aspect in strategy formulation is conducted to identify important factors and forces that exist outside the organization and have the potential to directly or indirectly affect the competitive strategies and performance. To achieve a competitive advantage, enterprises are mandated to come up with strategic choices in the form of competitive advantage they seek to realize and the scope within which it will attain it.

In determining competitive advantage, choosing the competitive scope or the range of the firm's activities can be very effective since it aims at establishing a profitable and sustainable position against the powers that regulate your industry competition. Strategic choice decisions that a firm can pursue to achieve competitive advantage for growth may broadly be categorized into intensive, defensive, joint venture and a combination of strategies (David 2001). Depending on the competitive environment enterprises choose strategies that are able to give them sustainable competitive advantage. Organizational responses to environmental changes may result to variations in competitive strategies and performance (Sermon et al., 2006).

2.8 Competitive strategies, external environment, entrepreneurial orientation and firm performance

The choice of competitive strategies by an organization may be informed by various factors among them entrepreneurial orientation and the external environment as perceived by decision makers. Eventually competitive strategies chosen and implemented will determine the level of performance of an organization. Stalk et al., (1992) argue that when the external environment is quite stagnant, strategy can afford to be static, however, in a turbulent, dynamic business environment, strategy has to become similarly more dynamic. Competitive strategies in place ensure the cooperation and coordination teams of resources through combination, reconfiguration, co-evolution and integration in particular patterns (Teece et al., 1997). This is usually through combination using firm's processes, procedures, firm's skills and functional competences to match necessities to a changing environment in order to enhance performance (Teece et al., 1997; Grant, 1991).

Competitive advantage and performance depends on anticipation of market trends and quick response to the competitive strategies. The essential tenet in strategic governance is that a similarity amongst environmental conditions and competitive strategies is critical to performance (Bourgeois, 1985). A sound choice of a firm's strategy can be depicted in terms of its fit, equivalence or congruence with the environmental or firm's contingencies affecting the firm (Andrews, 1971; Hofer and Schendel, 1978). Entrepreneurial orientation has been taken as having attractive performance effect (Ansoff and Mcdonnell, 1990; Teece et al., 1997). A proposition therefore emerges that there is a joint effect of competitive strategies, external environment and orientation on performance.

Table 2.1: Summary of empirical studies and knowledge gaps

Study	Focus of the Study	Methodology	Findings and Conclusions	Knowledge Gaps
Chesoli, (2015)	Entrepreneur characteristics, competitive strategy, firm level institutions and performance of small and medium enterprises of non-timber forest products in Kenya	Cross sectional survey	Enterprises run by relatively young and skilled entrepreneurs had high levels of application of competitive strategy and better performance.	Did not link competitive strategies directly to SMEs performance
Gathungu, Aiko and	Entrepreneurial Orientation, Networking, External	Review of relevant	There is a link amongst	Did not consider competitive

Machuki (2014)	Environment and Firm Performance.	literature	entrepreneurial orientation, networking and external Environment on firm Performance	strategies
Namusonge (2014)	Linking competencies with strategies. The case of small and medium-sized exporting enterprises in Kenya	Cross sectional descriptive deign.	Firm's competencies are important in accomplishing competitive strategies.	Did not link external environment with strategies.
Okeyo (2013)	Entrepreneurial orientation, business environment, business development services and performance of small and medium manufacturing enterprises in Kenya.	Cross sectional survey.	The joint effect of entrepreneurial orientation, business development services, environment is significantly greater than the individual implications of each variable.	Did consider competitive strategies with firm performance.
Moorthy et al. (2012)	Factors affecting performance of SMEs	Descriptive study	Expertise and knowledge's will lead to higher creativity and competitiveness in business performance.	Did not cover demographic and individual background traits on performance.
Maalu (2010)	Determine nature of family business succession strategies and their effect on performance.	Descriptive cross-sectional and case study	Mixed findings on moderating influence of firm institutions on relationship between succession and firm performance.	Did not include entrepreneurial orientation into different categories to explore their moderating effect.
Oroko (2009)	Examine personality attributes on growth	Factor analysis and descriptive analysis	Personality attributes highly influencing growth	Limited to personality attributes.
Bowen et al (2009)	Management of business challenges among small and micro enterprises in Nairobi-Kenya	Descriptively cross sectional survey	Business prosperity is a result of embracing a mix of plans	Did not study impact of strategy on performance.
Kotha and NAIR (1995)	Strategic choice and environments as determinants of performance	Descriptive analysis	Firm strategies and the environment portray major tasks in impelling profitability and growth.	The study never looked at impact of external environment and entrepreneurial orientation on performance
Venkatram an Prescott (1990)	Environment- Strategic choice Co-alignment: An empirical test of its performance implications.	Descriptive analysis	There was a positive performance influence environment strategic choice co-alignment.	Strategic choices exhibited in each of the environments not considered.

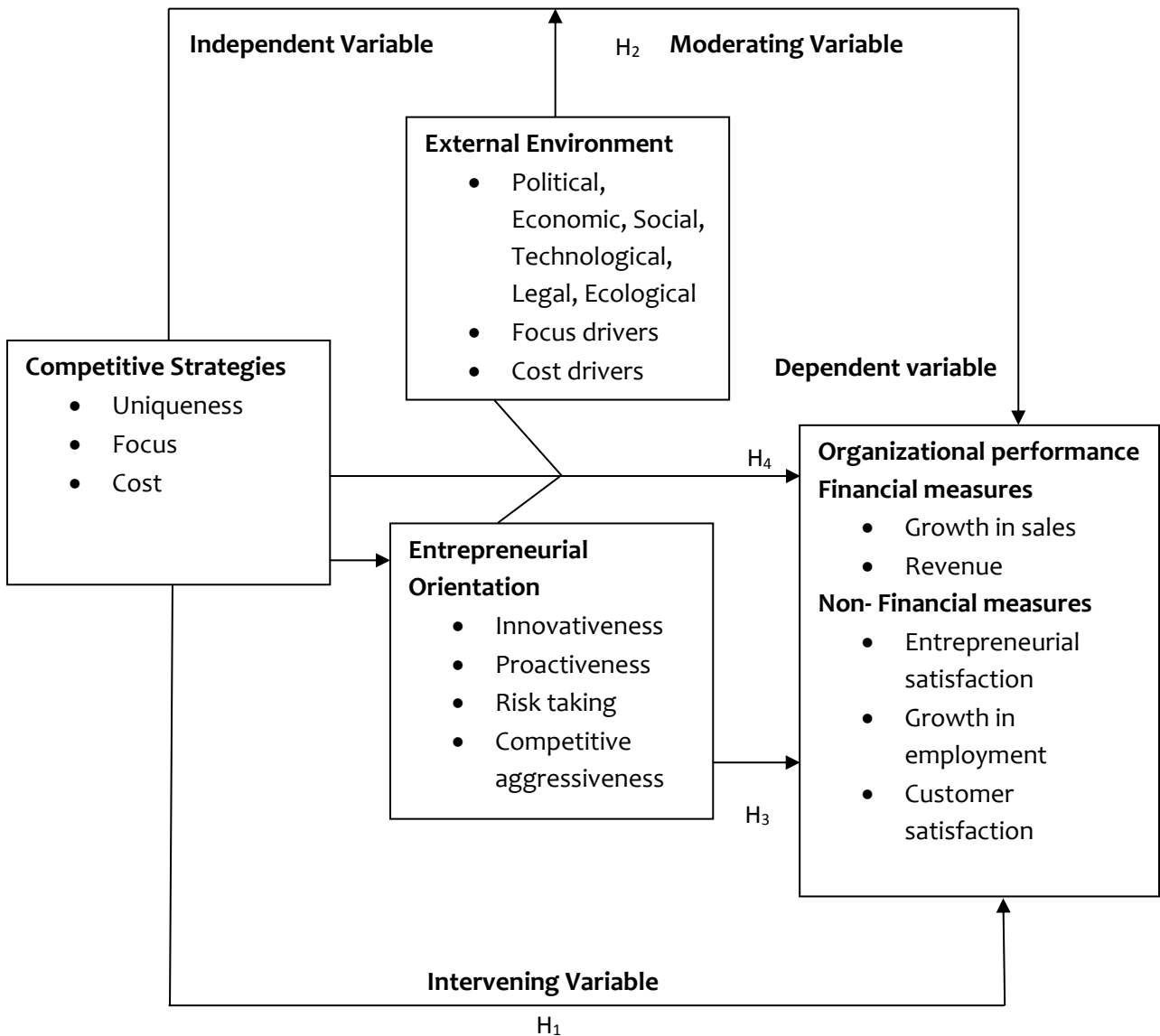


Figure 2.1: Conceptual model

3. Conclusion

The objective of the study was to examine the influence of entrepreneurial orientation and external environment on the relationship between competitive strategies and performance of small and medium enterprises in the manufacturing sector in Kenya. Based on the objective, exhaustive reviews of literature was carried out to provide more insight into areas and variables being investigated. Kenya’s private sector consists of mostly informal SMEs operating alongside large firms. Innovative SMEs with high growth potential many of them in high technology sectors have played a pivotal role in raising productivity and maintaining competitiveness in recent years (Carrier, 2010). Previous researchers have not captured the variables in this study in regards to performance of SMEs. Competitive advantage involves every aspect of the way the organization competes in the market place. While there is no single type of strategy which was associated with growth, the most successful SME are those that combine a number of strategies (Gomez- Mejia, 2010).

The study will make significant contribution to policies and entrepreneurial management practices. At policy level, the Government recognizes that SMEs in manufacturing are key drivers of economic growth and therefore develop policies and create awareness among policy makers as well as assisting them to use integrated models in the formulation of policies. Specifically policy makers will

combine policies on promoting competitive strategies and the operating environment. This will increase the ability of SMEs to scale up their operations to fill the 'missing middle' gap that is prevalent in the economy. This study will also benefit owner managers of SMES by making contributions to the competitive strategies in small and medium enterprises in manufacturing sector. These enterprises generally lack best competitive strategies as well as good responses to the turbulent macro environment.

Further it is argued that entrepreneurial orientation is a multi-dimensional construct operationalized in terms of several key dimensions such as proactiveness, innovativeness, risky ventures, competitive aggressiveness and market innovations. Entrepreneurial orientation as a firm's strategies orientation demonstrates specific entrepreneurial features of decision making techniques and association. Therefore the analysis points a positive relationship amongst entrepreneurial orientation and business strategy situations where dynamic environment is integrated. This eventually results in better knowledge of the environment, enhanced decision making and positive implications on business performance.

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