

Reconfiguration capabilities, entrepreneurial intentions and competitive advantage of small and medium youth retail enterprises in Kenya

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Abstract

This paper examines how entrepreneurial intentions mediates reconfiguration capabilities and competitive advantage relationships in youth owned small and medium retail enterprises facing dynamic situations especially from large retail enterprises.

Keywords: Reconfiguration capabilities, entrepreneurial intentions, youth SMREs, competitive advantage

1. Introduction

In Kenya, 'youth' defined as young person's between ages 15 and 30 years, are about 12 million and constitutes 32 % of the Kenyan population. With an increasingly young labour force, limited economic growth provides for only 25% absorption capacity in the labour market, leaving majority 75% of approximately 750,000 youth unemployed. About 70% of all those who are unemployed are young people below the age of 30 years old and 45% are below 24 years. High unemployment levels make the youth vulnerable to exploitation by employers. The majority of the unemployed youth have formal education without training. Primary and secondary school graduates account for 82% of the unemployed and university graduates for 1.4%. When looking at productivity and unit labour costs in a comparative context, it is clear that the mismatch between labour supply and market demand is negatively impacting on employment opportunities. Currently, the educational system often produces graduates who lack the necessary skills to compete in the labour market. Structural changes tend to create the demand for new types of knowledge, skills, and expertise that are lacking in the existing labour force. Therefore, unemployment is not just lack of jobs, but also lack of job skills due to inadequacy of training infrastructure and means to acquire skills because of high levels of poverty. The successful transition of youths from school to work will not only contribute to economic development but also help reduce the incidence of social problems. Youth unemployment is essentially a time bomb that calls for urgent redress.

The Government in collaboration with stakeholders has put in the heart of every strategy appropriate measures to curb joblessness among the youth. Key among the strategies is the establishment of the necessary support systems (financial, incubations centers) aimed at promoting the creation of self employment in form of Small and Medium Enterprises (SMEs) in the retail sectors. SMREs are considered to be key drivers of economic growth for many developed and developing countries, comprising over 90 percent of all businesses globally (Maurel, 2009; Tang *et al.*, 2007; Krake, 2005). They influence many governments' economic, developmental strategies and dominate the world business stage (Tang *et al.*, 2007; NORAD Report, 2002). They form a significant portion of the commercial landscape in any country and the contribution made by SMEs to any economy is a subject of constant research (Suprpto *et al.*, 2009).

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

2. Problem statement

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

However, despite their contribution to economic growth, the retail sector in Kenya is facing new and severe

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

3. Objective of the study

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

4. Research hypothesis

H₀₁: Strategic orientation has no significant mediating effect on the relationship between reconfiguration capabilities and competitive advantage of Small and Medium retail enterprises in Kenya.

H_{a1}: Strategic orientation has a significant mediating effect on the relationship between reconfiguration capabilities and competitive advantage of Small and Medium retail enterprises in Kenya.

5. Justification of the study

Small and medium-retail enterprises must succeed and achieve sustainable competitiveness, survival and industrialization according to the national development agenda in Kenya as been well-documented in Sessional Paper No. 10 of 2012 on Kenya Vision 2030 (GoK, 2012). Thus, the study will enable retail SMEs sector policy-makers to develop and train effective strategies for enhancing the sustainability of SMEs for their growth and survival in the highly competitive environment by leveraging the competences and resources. This study further provides important information SMREs in Kenya as a benchmark for further studies in developing countries in Africa and beyond. The study findings provide practitioners with competitive strategies in addressing competitive advantage challenges and in implementing dynamic capabilities strategically, in particular customer and competition oriented strategies that would make their businesses more competitive in the local and international markets as a whole.

6. Literature review

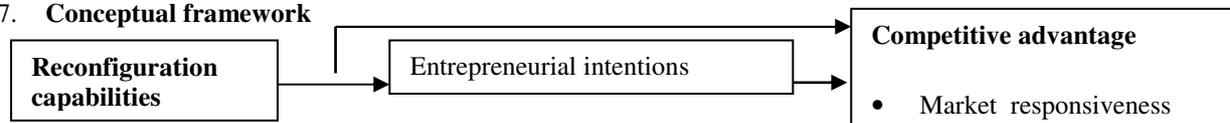
Jantunen, Ellonen and Johansson, (2012) refer to reconfiguration capability as the ability of an enterprise to reassemble resources and knowledge in order for innovation to take place. Transformation stage takes place after the right opportunities have been sensed and seized and it is achieved when these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

Despite a general consensus around Teece's framework, authors have tried to extend it and provide more refined sources and processes of dynamic capabilities, which eventually lead to sustainable competitive advantage. For example, well-developed transactive memory organizational systems can build up dynamic capabilities through building new knowledge assets and reconfiguring and integrating existing ones (Argote and Ren, 2012). However, most of the micro-foundations mentioned are located inside organizational and enterprise boundaries, thus, a need for including external factors as antecedents of dynamic capabilities is highlighted (Winter 2003; Ambrosini and Bowman 2009; Protogerou, Caloghirou, and Lioukas 2012). Competitive intensity, for instance, has been proven to be an enabling external factor in fulfilling dynamic capabilities' purposes (Wilden *et al.*, 2013).

Furthermore, complexity, uncertainty, munificence in external environments, as well as path dependencies are other external factors enabling or inhibiting dynamic capabilities' aspirations (Ambrosini and Bowman 2009). To summarize, dynamic capabilities appears to be an appropriate theoretical framework to study how enterprises identify and respond to changes in their external environment. Customer and competition responsiveness in

designing competitive strategies for example, are pointed out as dynamic processes instrumental in creating and sustaining competitive advantage. This thesis contributes to this literature by specifying exact types of strategic dynamic processes and by offering a thorough explanation of change as an enhancing external factor of dynamic capabilities competitive advantage.

7. Conceptual framework



8. Research model

The reduced model of the indirect relationship between the hypothesized reconfiguration capabilities and mediating variable was based on the function: $Y = f(X_1, N)$

The general multiple regression model for testing the hypothesis was:

$$Y = \beta_0 + \beta_1 X + \beta_2 N + \epsilon \text{-----model (i)}$$

9. Data analysis

The study sought to establish the extent of agreement of the respondents with various factors on reconfiguration capabilities of small and medium retailing enterprises in Kenya. The respondents agreed that show boldness in their efforts to maximize the probability of exploiting opportunities than their competitors and substantially changed ways of achieving their targets and objectives. Each had a mean score of 3.7450 and 3.5238 respectively. The respondents were neutral on the following factors: identified valuable capability elements to connect and combine them in new ways; implemented new kinds of management methods that are currently more responsive within their business processes; transformed existing resources into new capabilities (such as; new product offering, new services delivery systems); changed the strategic strategies; integrated new externally sourced capabilities and combined them with existing capabilities into 'novel' combinations; substantially renewed of our business processes; introduced new perceptible changes that lie outside the existing features of existing capabilities and effectively recombined existing capabilities into 'novel' combinations. Each factor had a mean score of 3.3986, 3.3960, 3.3446, 3.2500, 3.1986, 3.1554, 3.1007 and 2.9048 respectively.

Table 1: Reconfiguration Capabilities and Competitive Advantage

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

This study results are similar to one of Teece, 2007 who said that reconfiguring capability means matching and managing the bilateral dependence between service strategy and organizational design to achieve strategic fit. A strategic fit in this case refers to the congruence between the aspects of a given service strategy (including strategic market offering) and the aspects of a given organizational design. Strategic fit leads to coalescence, where service strategy and organizational factors are internally consistent, complementary and mutually reinforcing. It enables enterprises to achieve above-average enterprises performance. From a reconfiguration capability perspective, Lavie, 2006 observes enterprises systematically reconfigure their operating routines,

resources and technologies to improve innovativeness. Enterprises reconfigure technologies and different knowledge resources to find the right inventive combination. More specifically, innovation is a function of effective recombinant search that is motivated by competitive networking positions, flexible organizational structures and intellectual human capital.

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

10. Hypothesis testing

Hypothesis (H₀₁): entrepreneurial intention has no significant mediating effect on the relationship between reconfiguration capabilities and competitive advantage of Small and Medium retail enterprises in Kenya.

To estimate the effect of a mediator variables N (entrepreneurial intentions) on the X₁-Y relationship involves a regression equation that includes Y as a criterion and X₁ and N as the predictors. A regression model containing the reconfiguration capabilities, entrepreneurial intentions and competitive advantage was run to determine the relationship between the three. A regression model containing the three independent variables (reconfiguration capabilities, entrepreneurial intentions) was run to predict competitive advantage from the omnibus effect of the three. The general multiple regression model for this hypothesis was:

$$Y = \beta_0 + \beta_1 X + \beta_2 N + \epsilon \text{ -----eqn (i)}$$

Where; Y= competitive advantage

Independent variables are:

X₁– Reconfiguration capabilities,

N– Entrepreneurial intentions,

ε = error term

From table 1 the multiple linear regression results the indicates that there exist a positive linear relationship between the two hypothesed constructs (reconfiguration capabilities, and entrepreneurial intentions) with competitive advantage in that, 39.3% of the variation in competitive advantage is explained by reconfiguration capabilities, 35.1% of the variation in competitive advantage is explained by entrepreneurial intentions while 37.2% of the variation in competitive advantage is explained by other factors.

The results of ANOVA tests in which F-test was carried out using the Analysis of Variance (ANOVA) to determine whether there is a regression model $Y = \beta_0 + \beta_1 X + \beta_2 N + \epsilon$ where; X₃– reconfiguration capabilities, N– entrepreneurial intentions respectively was significant. Table 2 indicates the linear regression F-test results where the tabulated $F_{0.05,2,298}=3.84$ is less than the computed F-value of, 10.633, 40.006 respectively, hence conclude that with 95% confidence that reconfiguration capabilities, and entrepreneurial intentions has explanatory power on competitive advantage. Using the standard beta coefficients on the line of best fit the regression equations was obtained as follows;

$$Y = 10.335 + .112X_1 + .419N \text{ ----- (model1)}$$

Where;

Y= competitive advantage

X₁– reconfiguration capabilities,

N– Entrepreneurial intentions,

Table 2: Regression results on the relationship between reconfiguration capabilities, entrepreneurial intentions and Competitive Advantage

Predictor variables	R ²	β	F	Sig.	t	Sig.
Constant		10.335				
X ₁	.393	.112	10.633	.000	3.006	.0021
N	.351	.419	40.006	.000	8.338	.001

P<0.05

Dependent Variable(Y): Competitive advantage

Predictors: (Constant),

X₁– Reconfiguration capabilities,

N– Entrepreneurial intentions,

To test the hypothesis, the decision rule was reject $H_0: \beta_i = 0$ ($i=1, 2$) if the regression coefficient is significantly different from zero and consequently accept the alternate hypothesis $H_a: \beta_i \neq 0$ ($i=1, 2$). From the results of regression analysis between all the hypothesized constructs and competitive advantage, there is enough evidence to reject the null hypothesis H_{01} that: entrepreneurial intentions has no significant mediating effect on the relationship between reconfiguration capabilities and competitive advantage of youth Small and Medium retail enterprises in Kenya. This is because the beta coefficient of reconfiguration capabilities, entrepreneurial intentions ($\beta_1, \beta_2 = .112, .419$) respectively and t-statistic = 3.006, 5.110 being $>$ conventional $t=2.000$. The p-value is less than the conventional 0.05 implying that $\beta_{1,2} \neq 0$ hence entrepreneurial intentions has significant partial mediation on the relationship between reconfiguration capabilities and competitive advantage of SMREs in Kenya.

11. Discussions

The multiple regression analysis on Table 1 indicates a positive and significant linear relationship between the hypothesized constructs (reconfiguration capabilities, youth entrepreneurial intentions) and competitive advantage of SMREs in Kenya. The results clearly indicate that, youth entrepreneurial intentions partially mediate on the relationship between reconfiguration capabilities and competitive advantage of SMRES. This is because after introducing the mediating variables the explanatory power of X_1 on Y reduces from 48.5% to 39.3%. To test whether the mediating variable significantly contributed to the overall variance accounted by regression, t-test was used and the results showed that that youth entrepreneurial intentions partially mediates the relationship between reconfiguration capabilities and competitive advantage in SMREs because $t= 3.006$ shows that reconfiguration capabilities is significantly different from zero since $p=.0021$ is less than the conventional .05. Discussions of the findings after testing hypothesis 4 are as follows;

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

12. Summary of the findings

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

13. Conclusions of the study

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

14. Recommendations

This study was carried out during a period when there was economic instability in the country. Future studies could focus on periods of low political and economic turbulence. These kinds of comparative studies could help policy-makers and implementation arms understand the dynamic capabilities and competitive advantage of

SMEs thus enabling them to be competitive. The study findings revealed that only a small percentage of business take into consideration the dynamic capabilities. If Kenya is to industrialize by the year 2030, then a policy to improve on dynamic capabilities and competitive advantage of SMEs should be looked into. Policy makers in SMREs should evaluate the inherent capabilities and resources and the competitive strategy to be adopted by the SMREs by the degree to which they contribute directly to the accomplishment of sectoral strategic goals and objectives in line with the Kenya Vision 2030, key contributors being the retail and wholesale trade.

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

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

15. Future research

Future studies to repeatedly examine these variables, thereby achieving a deeper understanding of local and international strategic orientation and dynamic capabilities theory. Future research may consider examining the hypothesized model to confirm the direct and indirect influence of dynamic capabilities on superior performance and the mediating role of strategic orientations in explaining dynamic capabilities-superior performance relationships in practice by the SMREs since the Kenyan economy is on a transition to a middle class economy and enormous giant investments are setting in.

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