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## Indicators of Competitive Advantage in the Context of Small and Medium Enterprises: A Review of Literature

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### **Abstract:**

*Small and Medium Enterprises are important in job creation, income generation and poverty alleviation. Researchers have therefore proposed theoretical frameworks to help investigate factors on competitiveness, the constraints SMEs face and the policies that regulatory bodies can pursue to make the business environment friendlier. This study therefore focused on previously published empirical literature related to competitiveness. The reviewed literature shows that competitiveness has been described as dependent upon macroeconomics, governmental industrial policies and firm specific choice. The perspective of the current study is that macroeconomics and government policies equally affect all the industrial players and are to a large extent out of control of the leadership of any enterprise. There is therefore need to evaluate competitiveness based on a firm's specific choices that depends on the leadership ability of the management and hence can be manipulated by an enterprise for competitive advantage. Secondly, the widely used competitiveness models such as Porter's five forces analysis have some drawbacks. The model assumes a classic perfect market as well as static market structure, which is unlikely to be the case in present-day dynamic markets. In addition, some industries are complex with multiple inter-relationships, which make it difficult to comprehend and analyse using the five-force model. Based on intensive literature review, it was concluded that there is need for scholars to develop additional theoretical frameworks upon which propositions at the abstraction level can be advanced and empirically tested as hypotheses in empirical work. Therefore, the current study proposes a theoretical model to show the interplay of relevant factors for competitive advantage.*

**Keywords:** Indicators of competitiveness, SMEs, regulatory framework, strategic competencies

### **1. Introduction**

Small and Medium Enterprises (SMEs) continue to make significant contribution towards industrial transformation, job creation, income generation and poverty alleviation (Banjoko, *et al.*, 2012; Haltiwanger, *et al.*, 2010). SMEs requires relatively low capital investment, hence can easily be started in rural, semi-urban and peri-urban areas adjacent to cities. This in turn creates employment in these areas thus preventing migration of people from rural to urban areas, resulting in balanced economic development (Hu, *et al.*, 2011; Sinha, *et al.*, 2011). In spite of this, surveys on SMEs particularly in less developed parts of the world have revealed that a third of these businesses fail in the same year they became operational, as well as additional failures or closures of firms started in previous years (Khrystyna, *et al.*, 2010; Al-Shaikh, 1998; Mead & Liedholm, 1998). All this coming in the face of heightened competition as a result of internationalisation of trade, as well as employment opportunities consistently failing to keep up with an expanding labour force in many parts of the world (RoK, 2013; Jara & Escaith, 2012). To check this trend and put in place appropriate mitigation measures, stakeholders continue to look for contributions in two main aspects.

First, since the termination of the command economy and the commencement of the market economy in the early 1990s, the competitiveness of SMEs including firms in the informal sector is important considering their actual and potential contribution to a country's national economy. How competitive SMEs are need to be known and understood so as to aid in the formulation of support programmes that can best facilitate the growth of the small and medium enterprise sector.

Secondly, products produced by SMEs compete against those by larger enterprises from local and international community. Products manufactured abroad by large enterprises tend to be perceived to be of superior quality. For this reason, it is important for decision makers to fully understand the constraints that SMEs face, not only to indicate the immense scope that lay ahead in terms of needed quality and efficiency improvement, but also to facilitate the design and operationalization of appropriate mechanisms to address the situation.

## 2. Statement of the Problem

Small and Medium Enterprises are important in job creation, income generation and poverty alleviation (Haltiwanger, *et al*, 2010). Researchers have therefore proposed theoretical frameworks to help investigate factors on competitive advantage, the constraints SMEs face and the policies that regulatory agencies can pursue to make the business environment friendlier (Corwin, 2009). This study therefore focused on previously published empirical studies and literature related to competitive advantage. A general agreement running through these numerous studies is that in order to maintain competitiveness, an SME must take deliberate managerial steps to facilitate leadership in cost, innovation and quality products ahead of competitors. The reviewed literature shows that competitiveness has been described as dependent upon macroeconomics, governmental industrial policies and firm specific choices. The perspective of the current study is that macroeconomics and government policies equally affect all the industrial players and are to a large extent out of the control of the leadership of any enterprise. There is therefore need to evaluate competitive advantage based on a firm's specific choices that depends on the leadership ability of the management and hence can be manipulated by an enterprise to gain a competitive edge. In seeking competitive advantage, the widely used models such as Porter's five forces, and SWOT analysis have some drawbacks. For instance, Porter's static model addresses a limited number of industrial wide historical factors that may not be very useful to a specific organization operating in a rapidly changing and globalized business environment (McGrath, 2013). The other weakness of Porter's model is in clearly defining the industry since some firms have product lines that straddle several industries. SWOT analysis as an alternative model gives the same weight to all the factors, while in reality there might be one or two factors that outweighs all others (COM, 2005). Based on intensive literature review, it was concluded that there is need for scholars to develop additional theoretical frameworks upon which propositions at the abstraction level can be advanced and empirically tested as hypotheses in empirical work. Therefore, the current study proposes a theoretical model to show the interplay of relevant factors for competitive advantage.

## 3. Review of literature on Dimensions of Competitiveness

### 3.1. Need for SME Competitiveness

Competitiveness implies both profitable current operations while at the same time continuously repositioning key factors so to have SMEs respond to and anticipates the actions of competitors (Jara & Escaith, 2012; Halkos & Tzeremes, 2010). Consistent with this proposition, the Global Competitiveness Report 2013 – 2014 (WEF, 2018) points out that competitiveness is not a static process, but keeps shifting to higher intensity, where firms begin to rapidly develop new advantages while at the same time, attempting to neutralise the competitor's advantages. This results in a further escalation of competitive rivalry into a hyper-competition at which level companies actively work to put together series of temporally and long-term moves that undermine competitors in an endless cycle of jockeying for positions (Banjoko, *et al.*, 2012).

Ten years before the commencement of the 21<sup>st</sup> Century witnessed increased change in technology, political and social spheres, occasioning structural adjustments in economic systems and the configuration of enterprises, their relationships with each other and with the environment (Tuan & Yoshi, 2010; Vives, 2008). This has over the years continued to result in the moving and blurring of industrial boundaries, and the entry of new competitors from around the world (Tuan & Yoshi, 2010). Due to globalisation and increased interconnectedness through information technology, business enterprises are now able to have a richer and efficient inter and intra firm connectivity, resulting in opportunities for information sharing. On the other hand, the degree of risk and uncertainty has increased, thus making it more challenging to make forecast (Abiodun, 2011). Due to the interplay of several factors, no business can consider itself immune from an increasingly aggressive and challenging competitive environment (Brinkmsnn, *et al.*, 2010). Consequently, both large and small firms must quickly adapt to competitive pressures. As observed by Ayyagari, *et al.*, (2007), entrepreneurs must link their organization's unique capabilities to varying types of strategies over a period of time. SMEs must for instance learn from their environment about how to survive the variations in competitive conditions that shape the character of success (Tuan & Yoshi, 2010). Hence the need for researchers to propose theoretical frameworks to help investigate factors on competitiveness, the constraints SMEs face and the policies that regulatory bodies can pursue to make the business environment friendlier.

### 3.2. Theories of Competitiveness

Competitive Advantage theory seeks to explain key determinants necessary in creating and sustaining superior organizational performance (Porter, 1996; 1985). McGrath (2013) concurs that competitive advantage is obtained when an organisation develops or acquires a set of attributes (or executes actions) that allow it to outperform its competitors. Wang (2014) points out that Porter's theory of competitive advantage was created starting from the actual economic reality which could no longer be explained on the basis of the model of comparative advantages. As elaborated by McGrath (2013), Porter (1996) analysed ten countries with an important share in international commerce as a basis for establishing the system of the determinants of the competitive advantage. As elaborated by Wang & Ghose (2006), Porter (1996) started from the premise that the nature of the competition and the sources of competitive advantage are very different among industries and even among the segments of the same industry, and a certain country can influence the obtaining of the competitive advantage within a certain sector of industry. Porter (1990) also proposed that the globalisation of the competition and the appearance of the trans-national companies do not eliminate the influence of a certain country for

getting the competitive advantage because a country can offer different competitive advantages for a company, depending on whether it is an origin country or a host country. Another proposition by Porter (1996) was that innovation has a role of leading force to ensure a company stays ahead of the competition (Powell, 2001).

Starting from this premise, Porter (1990) identifies a system of determinants which is the basis for getting competitive advantages by the nations. The first one is the factorial determinant, which is the endowment of a country with factors. The second one is the determinants of the demand, which relates to the features of the internal market. The next determinant is the up and downstream industries; and lastly, the strategy and structure of the companies and the rivalry among them (domestic competition). As further elaborated by Wang (2014), these four determinants are conditioned one to another, and are considerably influenced by others two factors: the chance and the governmental policy. The more complex and dynamic the economic environment of the country is, the more likely some companies could fail if they cannot capitalize in an adequate way the requests of this environment.

The classical economic theory identifies labour, land and capital as the factors of production (Peteraf, 1993). Porter (1985) theory of competitive advantage demonstrates that, even though endowment with factors is obviously important, the critical element for a country to be competitive is to create new factors and to improve the existing ones. Hence, competitive advantage should be created because it is not inherited. Porter (1996) therefore divides the production factors into several categories. These are; human resources (quantity, the level of instruction, the costs with the labour, the time of working, the attitude to working); natural resources (abundance, quality, accessibility, the costs with land, water, mineral resources, forest); knowledge resources (the supply of the scientific, technical and marketing knowledge used for creating and distributing goods and services); resources (the level and the cost of the capital available for financing the industry, determined by the saving rate of the economy and the structure of the financial national market); infrastructure (including the transport systems, post, communications, payment systems and the systems used to transfer money). Porter (1990) argues that these factors which are the most important for obtaining competitive advantage.

In addition to Government policy, Porter (1996) identifies three features of the domestic demand which influence the acquirement of the competitive advantage. These are the structure of the domestic market which determines the quality level of the goods; severe domestic buyers with sophisticated needs; and anticipatory needs of the domestic buyers. On the importance of governmental policy, he observes that this is so because it can influence the local market by subventions, investments in education, regulating the domestic market, creating a competitive infrastructure for reducing the accessing costs of the factors. The government is also an important buyer for certain industries, such as defence industry, aeronautics and telecommunication. It is therefore important is to approach the system of the competitiveness conditions with a coherent governmental action in order to create or improve the national competitive advantages.

Another theory of competitiveness is the Market-Based View (MBV) which proposes that industry factors and external market orientation are the primary determinants of firm performance (McGrath, 2013; Powell, 2001). The sources of value for the firm are embedded in the competitive situation characterizing its end-product strategic position (Wang, 2014). The strategic position is a firm's unique set of activities that are different from their rivals. Alternatively, the strategic position of a firm is defined by how it performs similar activities to other firms, but in very different ways. In this perspective, a firm's profitability or performance are determined solely by the structure and competitive dynamics of the industry within which it operates (McGrath, 2013).

In formulating strategy, firms commonly make an overall assessment of their own competitive advantage via an assessment of the external environment based on the five forces model (Porter 1996; 1985). The five forces under consideration consist of the following: barriers to entry, threat of substitutes, bargaining power of suppliers, bargaining power of buyers and rivalry among competitors (Porter 1985). In this perspective, a firm's sources of market power explain its relative performance. Three sources of market power are frequently highlighted: monopoly, barriers to entry, and bargaining power (Leahy &Montagna, 2008). The five-force model enables organisation to analyse the current situation of their industry in a structured way.

Another theory of competitiveness is theResource Based View of the firm (RBV), which draws attention to the firm's internal environment as a driver for competitive advantage and emphasises the resources that organizations have developed to compete in the environment (Peteraf, 1993). Subsequently, researchersmade important contributions towards developing the Resource-Based View of strategy. According to Powell, (2001), the focus of inquiry changed from the structure of the industry, that is, Structure-Conduct-Performance (SCP) paradigm and the five forces model, to the firm's internal structure, with resources and capabilities (the key elements of the Resource-Based View). Since then, the resource-based view of (RBV) strategy has emerged as a popular theory of competitiveness (Wang, 2014). However, it has been argued that the RBV ignores the nature of market demand and only focuses on internal resources. Therefore, the concept of 'fit' was as a balancing act between the external and internal determinants (Nwankwo & Gbadamosi, 2010).

As elaborated by Wang (2014), most researchers subscribing to the RBV regard knowledge as a generic resource. However, some researchers suggest that knowledge has special characteristics that make it the most important and valuable resource, hence their proposition for the Knowledge-Based view, as another theory of competitiveness (MaCarthy & Greatbanks, 2006). McGrath (2013) concur that knowledge, know-how, intellectual assets and competencies are the main drivers of superior performance in the information age. MaCarthy & Greatbanks (2006) also suggest that knowledge is the most important resource of a firm. Evans (2003) pointed out that material resources decrease when used in the firm, while knowledge assets increase with use. Innovative knowledge gives the firm its competitive position over its rivals. The firm with innovative knowledge is able to introduce innovative products or services, potentially helping it become a market leader (Bigliardi, *et al.*, 2011; Bos-brouwers, 2010).

Transient Advantage is a more recent proposal on competitiveness that seek to overturn the hitherto assumptions about the temporal scope of the strategy formulation and execution processes (Wang, 2014; McGrath, 2013). Previously,

organizational strategies for competitiveness would be formulated to guide the firm's behaviour for a number of years, before reformulation. However, the proposal on Transient Advantage argues that given the way the current business environment has evolved, opportunities for leveraging competitive advantage are transient. This observation has a repercussion on the way in which strategies are formulated, executed, monitored, evaluated and revised. An important implication is that the strategy life-cycle will need to be much shorter, and, necessitate fast reaction to changing market conditions. This is, arguably, most important for the market-based view, wherein market positioning responses would have to be much faster.

### 3.3. Indicators of Competitiveness

Various studies have generated competitive determinants that have been previously recognized as common denominators among competitively successful business enterprises (Tuan & Takahashi, 2009; Ahlbrandt & Slevin, 1992). These factors have been shown to correlate significantly with business unit performance, measured in terms of a firm's long-term growth (Callahan, Smith & Spencer, 2013; Tuan & Takahashi, 2009; Ahlbrandt & Slevin, 1992). The reviewed competitive factors are as follows:

#### 3.3.1. Human Resource Policies

Many studies have shown that effective management of human resources is a key determinant of organizational performance (Afiouni, 2013; Armstrong, 2012; Jamal, 2011; Nzuve & Bundi, 2012; Tuan & Takahashi, 2009). Therefore, one of the business aspects that require continuous repositioning so as to hold some advantage relative to competition is in the area of effective management of human resources (Liesch, *et al.*, 2012; Storey & Westhead, 2007). This encompasses the strategic sourcing, training, guiding, directing, motivating, compensating, appraising, rewarding, and generally enabling the activities of employees in an enterprise. Evans (2003) elaborated Peter Drucker's observation that the management of an enterprise mainly revolves around people and capital allocation decisions. However, functional areas in an enterprise are useless without people. Though financial resources may be important to the success of an enterprise, they mean nothing unless effectively managed by people (Oyer & Schaefer, 2010).

In a study of competitive advantage of sixteen organizations, the researchers reported that at some time or another, the companies studied were able to capture or develop the greatest share of critically needed human resource skills to create an enduring competitive advantage (Abiodun, 2011; Storey & Westhead, 2007). To support this view, a growing number of management scholars are also asserting that firms will be more cognizant of their market opportunities and develop more effective response capabilities if the workforce is managed more effectively (Buckley, Simonin, & Knight, 2012). The nuclear of their argument is that effective human resource management conveys competitive advantages by reducing labour costs, expanding access to superior human resources, enhancing marketing expertise, improving problem solving capabilities and creativity, and shortening response time to environmental change (Griffith & Andrew, 2009). Thus, the successful implementation of strategy and operation decisions relies on people. Thus, to facilitate a successful implementation of a human resource strategy, the entrepreneur has to ensure that the human resource policies contribute to the firm's overall competitive position in a globalise business arena (Jara & Escaith, 2012).

#### 3.3.2. Business Strategy

As already observed above, human resource is the most important in an enterprise, without which all the other resources would count for nothing (Banjoko, *et al.*, 2012; Bryson & Stephen, 2009; Evans, 2003). However, without a strategy to direct the efforts of the human resources in the desired direction, then the results would be inefficiency and ineffectiveness towards the realization of the set organizational objectives. According to Dekkers, R. (2011), strategy formulation involves the development and maintenance of a strategic balance between an organisation's broader objectives and capabilities and the changing factors in the environment. This involves establishing a clear mission statement, setting SMART business objectives, designing a sound business portfolio and coordinating functional strategies (Dyer & Singh, 1998). The intention of strategy formulation is to find ways in which an enterprise can best use its strengths to take advantage of attractive opportunities, and at the same time hedge itself from threats prevalent in the environment (Tuan & Takahashi, 2009).

Business strategy as expounded in the enterprise objectives serve several purposes. For instance, a business strategy provides a measure of performance and focuses attention on the direction of the efforts of its members (Brinkmsnn, *et al.*, 2010). It also constitutes the premise upon which planning and management controls related to the activities of the organization are constructed (Dekkers, 2011). A business strategy also provides the basis upon which decision-making and justification for particular action is premised (Tuan & Takahashi, 2009). It also assists in developing commitment of individuals and groups to the activities of the enterprise, through focusing attention on the purposeful behaviour and providing a basis for motivation and reward systems (Liesch, *et al.*, 2012).

#### 3.3.3. Intra-Business Unit Communications

An organization's strategy seeks to guide the efforts of a firm's resources in a common direction (Dekkers, 2011). For this resource, a business strategy should have a mechanism embedded in it to allow for effective intra unit business communication for enhanced performance (Callahan, Smith & Spencer, 2013). This is more so because product production process and distribution networks have become very complex in the face of increased globalization and internationalization of business operations (Leahy & Montagna, 2008; Lunati, 2007). Organisations tend to have different but related units, whether in production, planning, distribution, selling or purchasing. Staff in each of these sections need

to communicate their needs to colleagues and superiors within and without their production units, hence the necessity for effective intra business communication (Abiodun, 2011; Storey & Westhead, 2007). An organization's success therefore depends on the effectiveness of its employees in working together, supporting common goals and understanding critical issues (Liesch, *et al.*, 2012; Armstrong, 2006). This is only possible in an environment that allows effective interchange of thought or information to bring about mutual understanding and confidence or good human relationships (Evans, 2003). This is the essence of organizational communication. Communication is thus the base for group activity, and for which entrepreneurs use as a tool to help in achieving the purpose and goals of their organization (Banjoko, *et al.*, 2012). This is achieved through the transmission and accurate replication of ideas necessary in accomplishing organisational goals.

#### 3.3.4. Process Improvement

Process improvement refers to the constant refinement of organisational systems and processes to yield improved value to customers (ASMC & MPI, 2009). Process improvement as a factor of competitiveness is somehow related to Product Development in the sense that there can be no meaningful change to one of the factors without similar changes in the other two (Jara & Escaith, 2012; Ghobadian & Gallea, 1996). The two also essentially take an incremental approach in their attempt to bringing about enterprise improvements, in that those engaged in a process are involved in identifying improvements in a continual and incremental manner (McCarthy & Greatbanks, 2006). The two are also similar in their recognition of the necessity to make fundamental changes to business unit culture, and to build in performance measurements and benchmarking as an inherent aspect of a process in order to be able to track future performance in each of them (Tuan & Yoshi, 2010; Armstrong, 2006). The difference however is in the involvement of those from the inside the process and the scope of their activity. For instance, process improvement is essentially a top down process that may not engage staff participation until after a broad design is conceived, although commitment to its purpose is necessary at all stages (Prajogo & Sohal, 2006). In an article on Managing Enterprise Productivity and Competitiveness, Monga (2000) explains the idea behind continuous process improvement. Monga (2000) points out that the basic purpose of process improvement is to take a total view of the process and arrange the total chain of activities to produce the intended end result (customer satisfaction) in the timeliest manner. Effective and efficient process management for improvement provides a framework for cooperation across business functional areas (Callahan, *et al.*, 2013; COM, 2005).

#### 3.3.5. Product Development

Given the advancement in international communication, increased access to knowledge and information, and the widened integration of markets has increased the need for competitiveness. Enterprises have the freedom to design products in one country, manufacture in another, purchase materials from others and deliver to customers all over the world (Sinha, Aloorie, Ding & Wu, 2011). The decision is guided by economic conditions, available skills and other advantages offered by different countries. However, goods produced regardless of efficient levels and which cannot be sold or are not required by customers, indicate low productivity (Corwin & Puckett, 2009; Kotler, 2007). Hence, products to be availed in the market must be designed and produced in a way that satisfies customer requirements for reliability, durability, price and delivery. The ultimate objective of product development is to have a product that meet or exceed the requirements of the customer. However, the challenge is that customers are increasingly demanding both innovation and value (Bos-brouwers, 2010; Brinkmann, *et al.*, 2010; Singh & Smith, 2004). Thus, as the value placed on new product designs and concepts continues to grow relative to the value placed on standard products, the need to make adjustments on the existing product improvement processes will also continue to surge (Rauch *et al.* 2009). This means that the ability to develop new products of high quality and low cost that meet customer expectations is essential for continued profitability and competitiveness (Lunati, 2007; Prajogo & Sohal, 2006).

#### 3.3.6. Marketing and Sales

Marketing and Sales function broadly encompasses customer identification, contract management, and feedback management (Karlan & Martin, 2009; Kotler, 2007; Singh & Smith, 2004.). This is important because the end product from a production process has to ultimately get to the market, hence the need for proper coordination between functions (Corwin & Puckett, 2009). The Marketing and Sales function operates on the assumption that the customer is "always" right, and adheres to meet the customer needs and wants (Nwankwo & Gbadamosi, 2010; Kotler, 2007). It refines and leverages the benefits of customer relationship management, by providing comprehensive information and insight about each customer, and most importantly, guidance as to what should be the next step, the next offering, and the next sentence spoken to a particular customer (Rahman, 2012). It therefore entails responsiveness to customer needs by tracking and improving response from customers because of the understanding that sales and profit will be better realised through repeat buying and consumer patronage (Kotler, 2007; Khrystyna, *et al.*, 2010). Understanding the customer is critical to effective production and market planning. In addition, an enterprise must constantly compare its products, prices, channels, and promotion with its close competitors, vis-à-vis the customer requirements (Nwankwo & Gbadamosi, 2010). This is possible especially if an organization involves the marketing and sales function in tracking and improving responses to customer requirements.

#### 3.3.7. Participative Management

To enhance the performance of employees in any business enterprise, including those in the Marketing and Sales function, there is need to involve them in decision making on matters that directly affect them. Studies have shown that work performance of employees in different settings either as individuals or members of a group is less as compared to their full potential in terms of skills, abilities and capacities (Evans, 2003). Armstrong (2006) pointed out that on average

an employee's performance level rarely exceeds half of an individual's total capacity to perform. Liesch, *et al.*, (2012) supported this argument by observing that most individuals tend to balance their efforts around an assessment of the relative costs (time and energy) and the benefits arising there from. Later studies in the area of organisational behaviour conclusively concluded that employee performance level largely varies depending on the quality of work life within the organisations (Abiodun, 2011; Lazear & Paul, 2009). As such, workers can be motivated to perform at high levels if the enterprise management can understand the meaning, scope and utility of motivation in improving the efficiency and working morale of employees. A basic precursor to employee motivation is participative style of management because the employees get involved in the day-to-day decision making in the enterprise (Banjoko, *et al.*, 2012; Evans, 2003; Simonin & Knight, 2012). An enabling environment therefore supports effective and efficient organizations and individuals, and creating such environments is becoming an increasingly important aspect of enterprise competitiveness (Oyer & Schaefer, 2010).

#### 3.3.8. Organizational Structure

Participative Management is not a standalone determinant of competitiveness because it can only be effective if implemented within a structured organization (Evans, 2003). As pointed out by Armstrong (2006), organizational structure is a means for attaining the objectives and goals of an institution. The structure contributes to the successful implementation of plans by formally allocating people and resources to the tasks, which have to be done, and providing a mechanism for their coordination. Organizational Structure therefore refers to the organizational arrangement that defines formal relationships, role description and accountability, task allocation, clustering of individuals, and structural systems for communication, coordination and integration of activities in an enterprise (Karlan & Martin, 2009). Consequently, an organizational structure is a significant factor that determines successful organizational performance because its design affects not only productivity and economic efficiency, but also the morale and job satisfaction of the workforce in an enterprise (Banjoko, *et al.*, 2012). Thus, some form of properly constructed organizational structure is necessary to make possible the effective performance of key activities and to support the efforts of staff in an enterprise.

#### 3.3.9. Vendor Relationships

Studies on successful enterprises show that quality supplies, leaner inventories, lower working capital, higher profits and productivity, and better customer service are among the benefits of collaborative behaviour in the enterprise - vendor chain (Sinha, *et al.*, 2011; Tuan & Yoshi, 2010). Moreover, positive relationships established between the enterprise and suppliers enhance synergy and team approach over the individual approach. These relationships improve communication between the parties and should ultimately facilitate the many benefits accruing from synergy and alliances against competitors. In view of this realisation, organizations continue to look for competitive advantages within and beyond its own operations, into the value chains of its suppliers and distributors (Nwankwo & Gbadamosi, 2010). As a result, many firms seek to partner with specific suppliers and distributors to create a superior value delivery supply chain (Tuan & Yoshi, 2010; Kotler, 2007). This has been achieved through vendor relationships. These relations involve focusing on the value chain that represents the sequence of activities in bringing materials into the business, and transporting out the final products (outbound logistics) in terms of delivering and supporting its products (Kotler, 2007; 2006; Lunati, 2007).

#### 3.3.10. Business Unit Culture

Business Unit culture here refers to the unique systems of values, beliefs and norms that members of an organization share and which therefore shape the way in which employees behave and things get done in the organization (Klapper, *et al.*, 2008). The Business Unit Culture therefore affects firm performance on all the other indicators of competitiveness. Studies have demonstrated that successful enterprises are usually built not only on a solid foundation of timeless core values, but also on the adaptability of their behavioural practices, secondary values, structures and other cultural artefacts (Banjoko, *et al.*, 2012). Other studies have also concluded that employees are much more likely to want to work for enterprises that they feel proud of, and where they feel that they enjoy a distinctive work experience. For instance, a study by a foodservice industry group found that the staff named organizational culture factors as some of the strongest motivators in staying in their jobs (Nwankwo & Gbadamosi, 2010). Thus, if a business enterprise wants to maximize its ability to attain its strategic objectives, it must understand if the prevailing culture supports and drives the actions necessary to achieve its strategic goals (Ding & Wu, 2011).

#### 3.3.11. International Competition

Internationalization of trade as a result of globalization and increased connectedness through the internet has continued to affect business enterprises in two major ways. First, it offers new opportunities for the business to enter foreign markets and to reduce business costs through use of improved technologies (Nwankwo & Gbadamosi, 2010; Leahy & Montagna, 2008; Dalrymple, 2000). Secondly on the downward side, competition at home from abroad puts local business enterprises at risk of having their markets taken over. Two major currents now confront the trade environment, one being the increasing speed and efficiency of global communication that has aided the explosive growth in International Trade the other being the new international trade system represented by the formation of the World Trade Organization (WTO) in January 1995 (Leahy & Montagna, 2008; Dalrymple, 2000). This new international trade system is now responsible for trade in services in addition to trade in goods all over the world. However, a more significant change is the complementary role played by other players towards regional integration, such as those created by the European Union, COMESA in Africa, or the North American Free Trade Agreement. These have advanced in parallel with the General

Agreement on Trade and Tariffs system born out of reconsideration of the regional economic blocs that formed prior to World War II (World Bank, 2001). All this has catalysed the blurring of traditional national boundaries in favour of trade across boundaries (Jara & Escaith, 2012).

### 3.3.12. Financial Management Practices

In many respects, financial management practices and policies are the most critical influences upon financial condition and hence firm competitiveness (McKinsey & Company; 2010). Effective financial management performance is critical for business survival and growth (Banjoko, *et al.*, 2012). Without clear financial controls and targets linked to strategic objectives, an enterprise can under-perform, no matter how entrepreneurial and enthusiastic its owners, investors and staff are (McKinsey & Company, 2010). Moreover, the realities of the new world of super-fast communications, supply chain logistics and information network through which international trade is conducted, means that firms in the Small and Medium Enterprise sector, including MSMEs, must change their mind set and adopt new financial and management practices in order to survive and prosper. This means that they need to embrace proper financial management and practice good corporate governance and business transparency so as to gain the confidence and trust of their bankers as well as international customers (Tuan & Takahashi, 2009).

### 3.3.13. Governmental Policy

Many studies have established that a good legal and regulatory framework by governments is critical for entrepreneurship and the attendant job creation, poverty reduction and national economic development (Schlogl, 2004; Omar, Arokiasamy & Ismail, 2009; Abor & Quartey, 2010; Bouazza *et al.*, 2015). The legal and regulatory framework within which an enterprise operates influences its survival and growth potentials (Khan, 2014). Regulations by governments produces an atmosphere for businesses to grow or crumble (Luiz, 2011; Abor & Quartey, 2010; Bouazza *et al.*, 2015). In the same vein, Chen *et al.* (2007) observed that when the legal and regulatory framework in a given economy are excessive, they may inhibit creativity and innovation, improved efficiency and enhanced productivity and growth of business enterprises. Likewise, Fonseca *et al.* (2007) has pointed out that regulatory requirements that are in most cases not well streamlined cause a lot of stress to entrepreneurs in their desire to develop their business enterprises.

## **4. The Call for a Theoretical Model**

This study reviewed extensive empirical literature related to competitiveness of firms and particularly the SMEs. The perspective of the current study is that macroeconomics and government policies equally affect all the industrial players and are to a large extent out of control of the leadership of any enterprise. There is therefore need to comprehensively evaluate competitiveness based on a firm's specific choices that depends on the leadership ability of the management. The current study therefore proposes the following theoretical model to show the interplay of the competitive factors upon which propositions at the abstraction level can be advanced and empirically tested as hypotheses

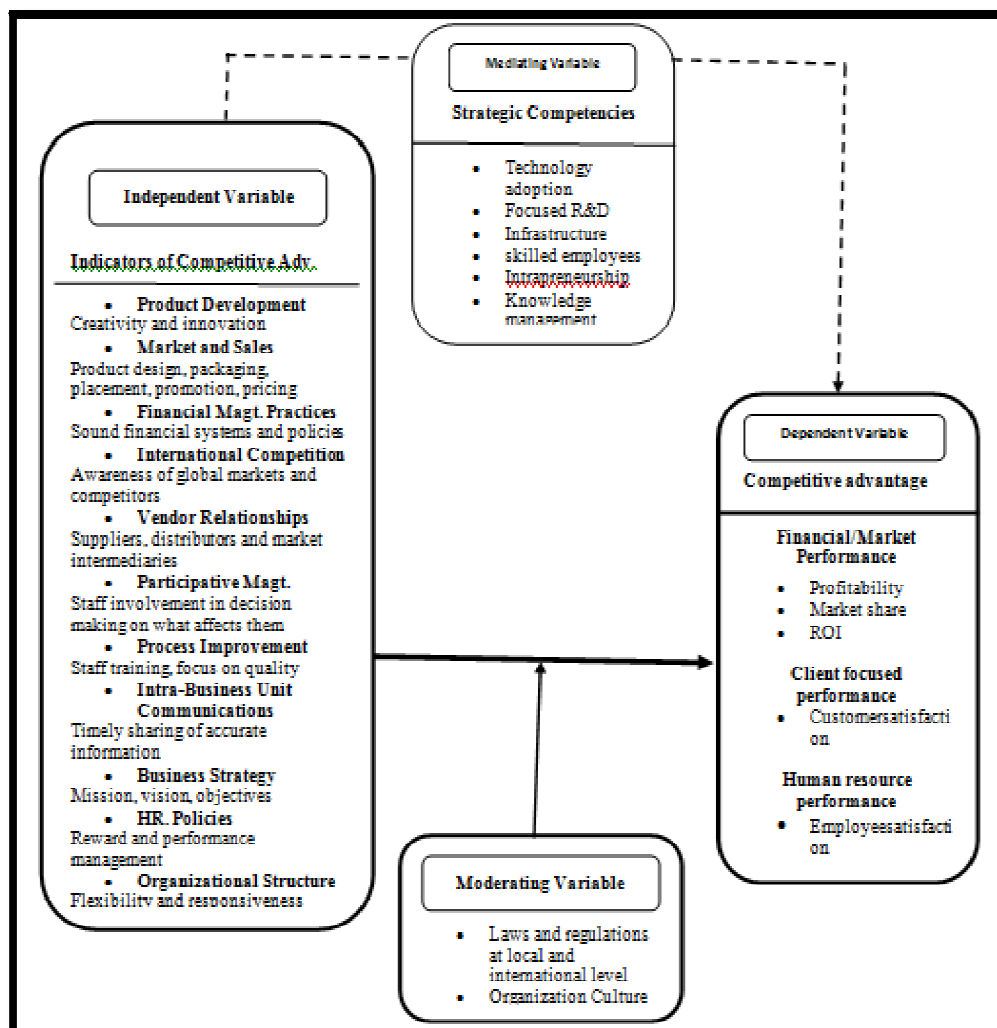


Figure 1: The Conceptual Framework of Indicators of Competitive Advantage, Strategic Competencies and Performance in the Context of SMEs  
Source: Author (2019)

#### 4.1. Propositions

##### 4.1.1 Indicators of Competitive Advantage and SME Performance

Business organizations frequently face operational challenges in a globalized and hyper competitive business environment, hence the need to exercise choice among alternative strategic alternatives for sustainable competitive advantage. Strategic choice is an unchallengeable part of the decision-making process. Consistent with several empirical findings discussed in this paper, it is important to link indicators of competitiveness and performance of SMEs. Thus, the study proposes that:

Proposition 1 (P1): *Indicators of competitive advantage determine performance of SMEs but moderated by the regulatory framework.*

##### 4.1.2 The Role of Strategic Competencies

An effective strategic choice positions an organization towards achievement of its objectives. Effective organizations therefore continuously scan both internal and external environment to predict future trends, seize opportunities, and shape market direction through employing indicators of competitiveness and making use of strategic assets. From both empirical and theoretical literature reviewed above, strategic competence shaves a positive and significant effect on SME performance. Based on this, the study proposes that:

Proposition 2 (P2) & 3 (P3): *Strategic Competencies mediates the relationship between indicators of competitive advantage and performance of SMEs.*

##### 4.1.3 The Role of Regulatory Framework

Regulatory framework is the environment in which businesses operates and which can directly or indirectly impact on an SME's operations (Gonzalez-Torre & Adenso-Diaz, 2010). From the theoretical framework, the dotted line P3 moderates influence of indicators of competitiveness on the performance of SMEs. Consistent with both conceptual and



empirical literature reviewed in this study, it is important to link the adopted regulatory framework and performance of SMEs. Thus, the study proposes that:

Proposition 4: *Regulatory Framework moderates the relationship between indicators of competitive advantage and performance of SMEs.*

## 5. Conclusions

The objective of this theoretical study was to review both existing theoretical and empirical literature, identify existing gaps on issues of competitiveness, strategic competencies, regulatory framework and performance in the context of SMEs and finally propose a conceptual model providing propositions for filling up the identified gaps. The study may be of great importance to SMEs in designing strategies that can best meet organizational objectives. Entrepreneurs will be in a better position to steer the business to efficiency and effective operations. Governments and regulatory agencies may find the information useful in formulating laws governing the SME sector.

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