EFFECT OF ENTREPRENEURIAL SKILLS ON COMPETITIVE ADVANTAGE AMONG SMALL AND MEDIUM SIZE ENTERPRISES

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Abstract

The objective of the study was to establish the effect of entrepreneurial skills on competitive advantage among small and medium enterprises in Kawangware Division, Nairobi County in Kenya and the corresponding hypothesis was formulated and tested. A descriptive survey design was adopted for the study. Convenience sampling was used. The study targeted 102 proprietors of SMEs and 75 of them responded. SPSS Version 21 was used to analyze data using simple regression analysis. Research findings from the test of the hypothesis established that entrepreneurial skills lead to creation of competitive advantage among small and medium size enterprises. The study findings support the Resource Based View which explains how specific entrepreneurial skills, which are intangible resources combine with other tangible resources to enable SMEs to be competitive in the market. The research recommends further investigation of the study variables SMEs in other parts of Kenya.

Keywords: Entrepreneurial skills, competitive advantage, small and medium enterprises, Resource Based View

INTRODUCTION

Entrepreneurial Skills are the capabilities an entrepreneur possesses in order to run a business (Hisrich & Peter, 2002) whereas competitive advantage refers to implementing strategies that are not copied and implemented concurrently by existing and potential competitors (Barney,

1991). Although previous studies indicate a link between entrepreneurial skills and competitive advantage, the studies are inconclusive because the variables were operationalized differently and were examined in different contexts (Jagogo & Kinyua, 2013, Martin & Namusonge, 2014, Njoroge & Gathungu, 2014). Further, since most enterprises fail due to lack of entrepreneurial skills, among other things, this study is timely to address the problem (Fatoki, 2014).

Entrepreneurial Skills

The modern business operating environment has become highly volatile following increased competition and ever changing customer tastes and preferences. Therefore, businesses and in particular, SMEs have to cope with the changes by embracing entrepreneurial skills in order to gain a competitive edge against competitors to survive in the competitive environment. Entrepreneurial skills enable an entrepreneur to identify customer needs, technical and market opportunities (Hayton, 2015), generate ideas, develop products /services to meet the needs, and acquire information about the potential opportunity domain and knowledge (Chell, 2013) . Personal entrepreneurial skills gives entrepreneurs the ability to create new products or services and subsequent launch in the market. This is referred to as innovation according to Schumpeter (1942).

Self - motivation is another skill which is personal in nature and plays a key role in the creation of new businesses according to Segal, Borgia, and Schoenfeld (2005). The entrepreneur is motivated by the reward in the economy to run and sustain business in the long run (Baumol, 1990) . Networking is another entrepreneurial skill which is a key source of social capital (Lessor, 2000).

Competitive Advantage

Competitive advantage can arise when an organization does its business differently from its competitors who have no knowledge of the firm's activities (Kotler, 2000). Competitive advantage is considered as an objective of strategic plan (Porter, 1985). A firm is considered having competitive advantage when its creating much economic value than its competitors (Karanja & Osmani, 2013).

By taking analysis of five forces model (Porter, 1985) that is, threat of new entrants into the industry, bargaining power of suppliers, bargaining power of suppliers, threat of substitute products and rivalry of competitors, if a firm is able to handle the forces with a view of maximizing profits while minimizing risks , it will definitely have competitive advantage over the others in the market. By employing generic strategies (Porter, 1985), a firm can use information systems to implement strategies which will enable it to survive and be successful in order to

counter these market forces (Brien & Marakas, 2011). In reference to the aforementioned therefore, linking information technology and customer focused innovation strategies to Porter's three generic strategies of cost, differentiation and focus which is attributable to innovation will support gaining competitive advantage.

Competitive advantage in a firm is indicated by its sustainability (Barney,1991), the analysis of items that are measured through firstly, the existence of strategies which cannot be imitated and implemented by the current or future competitors, secondly, the strategies giving competitive advantage cannot be copied nor imitated by rivals (Collins & Montgomery, 1985). The current study operationalized competitive advantage by market share, customer perception and innovation (Sultan, 2007).

Small and Medium Size Enterprises in Nairobi County, Kenya

Nairobi County has the largest concentration of SMEs in Kenyan urban centers (UNDP, 2015) according to the 1999 National SME Baseline Survey by Central Bureau of Statistics International Center for Economic Growth (ICEG), and K-Rep Holdings Ltd. These SMEs are spread across the sectors of the economy including, transport, manufacturing, retail service among other sectors (Ong'olo & Awino, 2013). The small and medium enterprise (SME) sector make significant contribution to GDP and in job creation, new products in the market   and general economic growth for the industrialized and developing economies (Robson & Bennett, 2000). The sessional paper No. 2 of 2005 outlines the vital role played by SMEs in Kenya in the development of Micro and Small enterprises as a catalyst for economic development (GOK, 2005).The emphasis of SMEs on solving social economic issues in Kenya is a key priority of Vision 2030 which emphasizes on economic development expects SMES to achieve this growth through entrepreneurship (Vision 2030). SMEs offer employment to over 74% of the total jobs in Kenya and contributes 18.4% of the Country' s GDP (Ong'olo & Awino, 2013). The Kenyan government has put legislations and mechanisms in regulating the development of SMEs according to the SMEs Act (GOK, 2012).The Act specifies the registration, recognition and positioning of the firms in doing government tenders.

Small and Medium Enterprises in Kawangware Division, Nairobi County

Kawangware division is located fifteen Kilometers from Nairobi City business center on the west side neighboring Lavington area and to the North borders Kangemi and on the South Dagoretti. The area is an urban center with inhabitants of low income earners with informal settlements on the eastern part along Gitanga Road (Ndome, Ekwu, & Ateb, 2011). Until 2016, the business trading activities were mainly in retail of household products, hardware and timber

sales, and motor vehicle garages, spares shops in electrical, and automotive, county market mainly trading in grains, fresh produce and household goods, and the enterprises are mostly run by proprietors who are managers and employ few staff.

Entrepreneurial Skills and Competitive Advantage

Martin and Namusonge (2014) did a research on SMEs located in Nakuru County in Kenya and established a perceived link between innovation and business growth. According to Notebook (1994), innovations done by small firms increased sales due to number of patents released to the market and therefore they should pursue product innovation strategies emerging in the market. The study had similarities to the research done on the basis of innovations and growth of SMEs, however they differ in knowledge and in context because of geographical locations and industries in that the extant study is on SMEs spread across the several industries.

In a similar study carried out by Jagogo and Kinyua (2013) to establish the effect of social media on the growth of SMEs, the findings from the study were that most SMEs did not have sufficient knowledge on use of social media as a strategy for business growth while for those that have embraced social media revolution are able to expand their market and improve customer care management (Evans, & McKee, 2010). While the research is similar to the proposed study because social media is a management skill and a component of entrepreneurial skill, the knowledge established differs from the one for this study. Thus the hypothesis, H_1: entrepreneurial skills have a significant effect on competitive advantage among small and medium size enterprises.

METHODOLOGY

The study adopted descriptive survey design. Data was collected using structured questionnaire from the proprietors of 102 selected SMEs in Kawangware Division, Nairobi County, Kenya. For this, a convenience sampling method was used. A pre-test was done, and based on the pre-test results, the instrument was amended accordingly. The study used descriptive and inferential statistics to analyze data. Data was analyzed using SPSS version 21 and the results have been presented using tables.

ANALYSIS AND FINDINGS

Simple linear regression analysis was used to establish the effect of the independent variable on the dependent variable. The value of R-squared shows the amount of variation in the dependent variable caused by the independent variable. The unstandardized coefficient shows

the amount of change in the dependent variable attributable to the amount of change in the predictor variable. The F-statistics measure the goodness of fit of the model. The statistical significance of the hypothesized relationship was interpreted based on R^2, F, t, β and p values. The regression model used was: **Y= β$_0$+ β $_1$X$_1$+ε,** where Y= Competitive advantage; β$_{0=}$ Intercept; β1=Coefficients; X_1 =entrepreneurial skills and **ε=**Error term.

Study Response Rate

The target population from which the sample was selected were employees in SMEs in Kawangware division and 75 out of 102 responded thus the response rate was 75 %   which was sufficient enough and representative of the population because it conforms to Mugenda and Mugenda (2003) recommendation that a response rate of over 70% is acceptable.

Level of Education

The study sought to determine the highest educational level of the respondents. The finding is presented in Table 1.

Table 1: Educational Levels of the Respondents

	Frequency	Percent
Primary school	13	17.3
Secondary Level	20	26.7
Advance A Level	15	20.0
College graduate	12	16.0
University First Degree	9	12.0
Masters Degree	6	8.0
Total	75	100.0

From the responses, 13 (17.3%) of the respondents had primary level of education, 20 (26.7%) had secondary level, 15 (20%) had A level education, 12 (16%) were college graduates, 9 (12%) had university first degree and 6 (8%) had masters degree. This implied the respondents had relevant knowledge thus they had ease in answering the questions and provided the correct response.

Type of Business

The research sought to identify the type of businesses owned by the respondents. The finding is shown in Table 2.

Table 2: Type of business

	Frequency	Percent
Retail stores/Supermarket/Shop	29	38.7
Hardware /Timsales/Sand	8	10.7
IT shops /Mpesa/book shop	14	18.7
Real estate developers	9	12.0
Motor vehicle spares/Garage	12	16.0
Schools /Colleges	3	4.0
Total	75	100.0

From the responses, 29 (38.7%) had Retail stores/Supermarket/Shop, 8 (10.7%) had Hardware /Tim sale/Sand, 14 (18.7%) had IT shops / Mpesa / book shop, 9 (12%) were Real estate developers, 12 (16%) had Motor vehicle spares/garage and 3 (4%) had Schools /Colleges. This shows that the respondents in the area engage in different business ventures hence the respondents information was relevant according the research besides being reliable

Test of the Hypothesis

Simple linear regression analysis was conducted to establish the effect of entrepreneurial skills on gaining competitive advantage among SMEs in Kawangware Division in Nairobi County.

Table 3: Effects of Entrepreneurial Skills on Competitive Advantage

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.455[a]	.207	.196	4.70687

ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	421.862	1	421.862	19.042	.000[b]
Residual	1617.285	73	22.155		
Total	2039.147	74			

Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	6.366	2.002		3.175	.000
Entrepreneurial Skills	.397	.091	.455	4.364	.000

Predictor Variable: Entrepreneurial Skills   Dependent Variable: Competitive Advantage

DISCUSSION

From the finding in Table 3, R^2 was 0.207 implying that only 20.7% of the dependent variable (competitive advantage) was explained by the independent variable (entrepreneurial skills) while 79.3% of the variations were due to other factors not in the study. The ANOVA results show a significant value of 0.000 showing that the model is statistically significant in predicting the relationship between the dependent and the independent variable. The F, critical at 5% level of significance was 3.97. Since F calculated (value = 19.042) is greater than the F critical (3.97), this shows that the overall model was significant. The established regression equation becomes;

$Y = 6.366 + 0.397X_1 + \varepsilon$, Where: Y= competitive advantage, X_1= Entrepreneurial Skills and ε = Error Term.

The regression coefficients indicate that for every one unit increase in the use of entrepreneurial skills, competitive advantage increased by 0.397.

CONCLUSION

The study sought to establish the effect of entrepreneurial skills on competitive advantage among SMEs in Kawangware division of Nairobi County in Kenya. The study was conducted through a descriptive design. The study adopted both descriptive and inferential statistics to analyze the data. The study tested and confirmed the hypothesis that entrepreneurial skills have a significant effect on competitive advantage. This means that entrepreneurs who wish to succeed must embrace and inculcate entrepreneurial skills among their employees.

The study was limited to SMEs in Kawangware Division of Nairobi County and hence its findings may not be generalized to other parts of Kenya. Therefore, the study suggests further research to be undertaken to cover other parts of the county.

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