



## Toward Enhancing Sustainable Competitive Advantage of Small and Medium Enterprises in Developing Economies of Africa: A Confirmatory Analysis

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### Abstract

The increasing globalization and liberalization of trade has posed onto manufacturing small and medium enterprise (SMEs) in developing economies of Africa a survival and growth challenges. Nevertheless, the resource-based-view (RBV) has given rise to a perspective that views a firm's intangible assets as strategic resources with the potential to create and enhance sustainable competitive advantage in both local and global markets. Based on the peculiarity of SMEs in Africa, this paper develop and validate a conceptual model on the role of strategic organizational capabilities in improving the competitive advantage of SMEs for sustainable development in developing economies of Africa. Precisely, six variables were identified and reviewed as strategic capabilities. A total number of 81 valid questionnaires were retrieved from owners/managers of SMEs in Yobe state Nigeria and used to evaluate the reliability and validity of the adapted measures. The result of the Cronbach's Alpha test reveals a satisfactory value for all the variables understudy. Specifically therefore, innovation, learning, management, marketing, relational and technological capabilities have been established to be reliable strategic capabilities that would effectively and efficiently create and improve sustainable competitive advantage of SMEs in in developing economies.

**Keywords:** Strategic Capabilities, Competitive Advantage, SMEs

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### INTRODUCTION

Small and medium enterprises (SMEs) in developing economies tend to experience intense competitions as they try to expand their operation and market. Increasing skills level or capabilities, innovation and exporting are essential ways to enhance competitive advantage (Bennett and Smith, 2002). Therefore, to improve the commercial and economic activities in African continents and possible enhancement of the competitive advantage of business enterprises in the continent at the global market, the African union (AU) comes up with African Continental Free Trade Agenda to exploit development opportunities through privates sectors. This development strategy takes into consideration the roles of small and medium enterprises (SMEs) as essential to drive this goal, as the sector accounts for more than 80 percent of the region industrial and commercial activities. Governments in all states are encourage to support and positioned SMEs in tapping the opportunities in regional export destinations which can also be use subsequently as a stepping stones for expanding and penetrating into global markets (ATPC, 2017).

Nevertheless, the operation of SMEs are known to be constraints by limited resource and weak operational capabilities (Sok, Snell, Lee, and Sok, 2017 Saunila, 2016), particularly in Africa where managerial skills, human capital, research and development, innovation, technological and collaborative skill constitutes a great challenges to business enterprises (Akeyewale, 2018, Asante et al.,

2018, Salisu, Abu Bakar, and Abdul Rani, 2017, Oluwatobi, 2015, Lubango, 2015, Yauri, 2012, Oyelaran-Oyeyinka and Abiola Adebowale, 2012, Radwan and Pellegrini, 2010). However, due to the paucity of open standards, business firms create to a large extent distinctive capabilities and product to internationalize their operation in order to survive the effect of globalization (Rugraff, 2012).

Kamukama, (2013), advocated that given the technological sweeping in this twenty-first century, business firms need to recognize and appreciate the unavoidable role of invisible resources. The capability based theory of competitive advantage advocated that business firms can achieve distinctive competitive advantage through exceptional capabilities developed by the firms (Prahalad and Hamel, 1994, Teece, 1992). Thus, to prevent imitability however, firms must continually re-invest to sustain and expand the existing operational capabilities (Mahoney, 1995 Mahoney and Pandian, 1992). Operational capabilities has been advanced to includes; change management, information, technological and management capabilities (Jurisch, Palka, Wolf, and Krcmar, 2014). Organization capabilities includes internal integration, external integration, marketing and technological capabilities (Akroush, 2012, Verona, 1999).

Based on the extensive review of literature in strategic management, this study organizes its integration around six strategic capabilities (innovative capability, learning capability, management capability, marketing capability, relational capability and technological capability) as major determinants of SMEs competitive advantage. Literature on the performance of SMEs in Africa



demonstrated the lacks of innovativeness, mediocre management, inefficient learning, technical and marketing capabilities as well as poor collaboration and networks (Akeyewale, 2018, Asante et al., 2018, Salisu, Abu Bakar, and Abdul Rani, 2017, Oluwatobi, 2015, Lubango, 2015, Yauri, 2012, Oyelaran-Oyeyinka and Abiola Adebowale, 2012, Radwan and Pellegrini, 2010).

Therefore, innovative capability, learning capability, management capability, marketing capability, relational capability and technological capability are considered to be essential resources that would enhance SMEs competitive advantage in developing economies like Africa. The choice of these six capabilities is neither meant to be exhaustive nor entirely arbitrary. The major standards of their inclusion are based on two reasons: first, theoretical foundation for each has been established for long, but in most cases related to large firms. Secondly, their relevance to competitive advantage has been empirically attested, however, mostly in developed and emerging economies. Thus these capabilities are been considered to be relevant in enhancing competitive advantage of SMEs in developing economies of Africa.

## LITERATURE REVIEW

The review of literature in this section concentrates on the variable understudy. Specifically, the concept of competitive advantage was reviewed. Similarly, the relationships of the identified strategic capabilities as determinant of SMEs competitive advantage were reviewed.

### Competitive Advantage

The dawn of the twenty-first century has brought with it incomparable business opportunities which can be termed “as global market place” where goods, capital and information flow freely and customer choice is increasing at an unprecedented rate fashioning opportunities for progressive and aggressive firms (Longenecker and Ariss, 2002). These escalated level of competitive pressure makes firms resort to exploiting every avenue for achieving competitive advantage (Longenecker and Ariss, 2002). A major single concern of business firms nowadays is the attainment and sustainability of competitive advantage (Barney and Clark, 2007, Porter, 1985). Competitive advantage entails a greater specific business performance indicator which gives the firm a competitive advantage that creates differential performance compared to competitors (Areias and Eiriz, 2013).

Competitive advantage has been described as firm's assets, resources and practice that can be created, used and sustained to enhance firm's competitive position in the market place (Longenecker and Ariss, 2002). Firms are developing and exploiting competitive advantage through strategic partnership, mergers, acquisitions and supply and distribution chain management (Longenecker and Ariss, 2002). Porter maintained that factor condition (capabilities, skill), demand condition (product development, market size,) related and supported industries (supplier and customers) and business strategy drive firm's competitive advantage (Bennett and Smith, 2002). The competitive advantage of a firm can be demonstrated by the ability to guard against the threats of entrants, superior bargaining power over suppliers and customers and the ability to outperform rival within the industry (Passemar and Kleiner, 2000). Equally, lucks play a non-trivial role in determining competitive advantage in addition to effective strategic maneuvering and well-run management (Ma, 2002). However, in business context, competitive advantage often descends itself upon the firms from unique historical events, change in cultural and social trend, technological breakthrough, change in market demand, asymmetric information and regulation and deregulations. Therefore, with effective adjustment to strategic capabilities SMEs firms can develop superior competitive advantage.

### Innovation Capability and Competitive Advantage

Innovation capability is viewed as a resilient strategic competitive techniques for SMEs in today's global business environment which is full of intense competition with great growing demand for better quality product, quick response time, unfailing deliveries and new product utilities (Abereijo, Adegbite, Ilori, Adeniyi and Aderemi, 2009). Consequently, this fast changes in technologies, consumers' taste and preferences, as well as overall market condition means that firms' survival, competitive advantage and success depend on its capability to innovate (Yusr, 2016, Iddris, 2016). However, Edwards, Delbridge and Munday (2001) demonstrated that innovation is not just about a abilities, it is about systems, competence and at times luck and unexpected discovery. In whatever case, firm's creativity and innovation leads to improvement in the product and service quality and quantity, reduced costs, prevent losses of resources, increases sales, enhance efficiency and productivity, improves motivation and enhance employee's job satisfaction (Farrokhan and Soleimani, 2015).

Innovation means the process of converting idea into product and service through the execution of new or improved method (Ferraresi, Quandt, Santos and Frega 2012). Additionally, innovation have been describes as an art of identifying and implementing or adopting new procedure, process, product or service within a group, an organization or wider society in order to attain competitive position and improve performance (Bakar and Ahmad, 2012). Therefore, innovation capability has been described as the ability of a firm to identify, acquire and assimilate external resource and blend them together with internal resources to produce the desire output that effectively satisfy the need and wants of the customers (Alexe and Alexe, 2016). Innovation capability demonstrates firm's ability to recognize, obtain, operate and transform a given technologies and ideas to suit a particular business activities that help the firms to innovate (Zawislak, Alves, et al. 2012).

Meier, Fadel, Wälchli, Kobe and Johns (2004), considered innovation capability as the ability of organizing firm's strategies, resources, processes, methods, tools and culture to expedite the success of innovation undertakings, competitiveness and general performance. With effective innovation capability SMEs firms in developing economies of Africa can adequately support creativity and innovation which would leads to the improvement in the product and service quality and quantity, reduced costs, prevent losses of resources, increases sales, enhance efficiency and productivity, improves motivation and enhance employee's job satisfaction to create superior competitive advantage.

### Learning Capability and Competitive Advantage

Learning is an imperative and multifaceted activities that entail management support that is dedicated to the acquisition and stimulating learning behaviors throughout the firm (Saeedi, Dadfar, and Brege, 2014). Rezaei-Zadeh and Darwish, (2016) established that firm learning capability consist of three components; exploratory, transformative and exploitative learning. The exploratory learning capability boosts firm's acquisition capacity (Rezaei-Zadeh and Darwish, 2016), through promotion of employee's initiative, incentive, system and procedure to search and assess the incoming external knowledge and idea (Aribi and Dupouët, 2015). While, the transformative learning capability enhances assimilation and transformative capabilities (Rezaei-Zadeh and Darwish, 2016), through inter-departmental and inter-firm communication and collaboration (Aribi and Dupouët, 2015).

Thus fundamental to the firm learning development is the improvement of firm's and employee's knowledge through transfer and integration of information and ideas that is independently acquired to improve competitive position (Pilar Jerez Gómez, Lorente, and Cabrera, 2004). Learning capability permit firms to transform and creates organization that constantly expand their abilities to shape and change their future (Lam, Poon, and Chin, 2006). Thus firms that develop effective and continuously improve their learning capability achieve superior competitive advantage (Clements, 2010, Bhatnagar, 2006, Goh, 2003). Learning capability



would therefore be an effective factor in augmenting SMEs firm's innovation process, thus facilitates the process of both radical and incremental innovation to improve competitive advantage. Learning capability would be vital to the fostering of SMEs firm's strategic orientations which will guide the operation of these firms. Learning capability would essentially influence the SMEs employee's emotional intelligent and employees job satisfaction which effectively create differential values to favorably compete.

### Management Capability and competitive advantage

A business firm is an entity converting internal and external resources into a set of product and process innovation (Zawislak et al., 2012). Therefore management in these firms spend much of their working hours on strategic decision and activities relating to the operation of the firm (Lindström, Samuelsson, and Hägerfors, 2010), and strategies implementation (Wasike, Ambula, and Kariuki, 2016). Thus, Sorooshian, Norzima, Yusof, and Rosnah, (2010) urged that the development and implementation of effective strategies are crucial part of strategic management task, hence management in a firm are considered as a ultimate strategist, innovators, organizers and motivators throughout the business operation process. Management capability is therefore essential not only in firm's survival but also sustainable productivity and growth.

Management capability is an vital element in influencing firm's success in the market (Garcés-Galdeano, García-Olaverri, and Emilio, 2016). It is an indispensable capability that helps firm to develop effective procedure, routines and capabilities that influence the execution of operational and innovative strategies for differential performance (Kor and Mesko, 2013). Hence top management capability exhibits the manager's ability to convert technological outcome into processes and operational undertakings for better competitive position (Zawislak et al., 2012). Therefore, the commitment and ability of SMEs in African economies to develop and hire a competent managers to steer the affairs of the business would within a possible short time turn around and effectively enhance the capacity of the businesses to compete favorably at the local and international markets.

### Marketing Capability and Competitive Advantage

The concept of market capability is derived from the emergence of marketing philosophy which identified that firm's success depends on the ability of satisfying the needs and the expectations of the target customers (Mahmoud, 2011, Day, 1994). Marketing capability entails all-embracing commitment to an established processes, values and beliefs geared toward understanding the customer needs (Kocak, Carsrud, and Oflazoglu, 2017). The objectives of marketing capability is to effectively satisfy customer needs than competitors so as to attain superior performance (Day, 1994). Marketing capability enable firms to create market disruptive product and achieve superior competitive position (Kachouie, Mavondo, and Sands, 2018). Therefore firms that nurture develop a superior and suitable marketing capability demonstrate considerable commitment in understanding and meeting customer needs, and the ability to respond appropriately to the changing competitive market environment (Tollin and Schmidt, 2015, Narver and Slater, 1990).

Marketing capability demonstrates firm's culture in creating outstanding performance through commitment to producing superior value to the target market (Slater and Narver, 2000). Hence Han, Kim, and Srivastava, (1998) emphasized marketing capability as a resource that allows firms to learn from the target market and enable them anticipate their needs so as to continuously design an effective innovative product. Consequently, marketing capability entails the application of firm's superior competences to understand and satisfy customers' needs and anticipate and reacts so as to benefits from the dynamic nature of the environment to achieve superior performance (Mahmoud and Yusif, 2012, Mavondo, Chimhanzi, and Stewart, 2005). Firms must strive to take the right course that facilitates the accomplishment of target goals of satisfying the needs and desire of

the customers (Boachie-Mensah and Issau, 2015). In view of this marketing capability is considered to be essential capability that enable firms to know their customer's needs and the actions of competitors as well as numerous environmental factors which might determine their success or otherwise (Shin and Aiken, 2012).

The ability of SMEs in identifying, the target market, their needs, the capacity to research and ascertain the right product to satisfy the need and the ability to produce the product based on needs identified, as well as the ability to develop other marketing program such as price, promotion and distribution. Similarly, the capacity to relates and get the feedback from the customers to make business a continue one.

### Relational Capability and Competitive Advantage

The resource-based-view urged that firm's resource are utilized to develop strategies for better service delivery and value creation, thus becomes the sources of firm's competitive advantage. It offers a respected conceptual foundations for the understanding of the firm's competitiveness (Eisenhardt and Martin, 2000). Therefore, SMEs firms that excellently develop it relational capability certainly outperform competitors in their industry. Relational capability permit SMEs firms synchronize it affairs, by identifying, acquiring and exploiting new technologies as well as knowledge that may support the firm to reinforce its market position. Relationship with strategic partners in the process of new value may advantageously make sense, given the partners explicit resources and expertise.

Relationship with relevant partners significantly affects firm's resilience, strength and alertness which in turn improve customer value and competitive position (Wieland & Wallenburg, 2013). Consequently, developing relationship with strategic partners is valuable when it create additional benefits for the customers and the firm. Thus, to adequately create benefits out of external relationship, the firm's integration process must be effective to streamline and remove activities and resources would not create value to the firm (Rodríguez-Díaz and Espino-Rodríguez, 2006). Obayi, Koh, Oglethorpe, and Ebrahimi, (2016) asserted that relational capability expand firm's performance with active absorptive capacity.

Through relational capability SMEs in developing economies can effectively develop collaboration, networking and relationship with strategic partners to access and source resources and information the business cannot afford to provide independently. SMEs can acquire and develop other operational capabilities through relationship with outside partners to effectively enhance its competitive advantage not only to effectively compete in niche market but to compete with the major competitor in the global market.

### Technological Capability and Competitive Advantage

Technology capability has been defined as a firm's ability to identify, acquire, develop and utilize now knowledge, skills or technologies to produce the best superior product that best satisfies the current requirement of the market and improve the organization performance. In an manufacturing set up there is always strong links between technological capability, innovation and other firm's activities, thus technological capability is an essential part of firm's general strategies (Arnold and Thuriaux, 1997). Technological capability support firms to be more flexible in their designs, thus, SMEs firm that develop effective technological capability easily adapt to the fast changing environment demands (Ajonbadi, 2015).

Baark, Antonio, Lo, and Sharif, (2011), postulated that technological capability improves firm's learning, organizing capability, resource allocation and manufacturing capabilities. Therefore firm's ability to understand, exploit and adapt to a rapidly changing technology is a key factor in improving performance through the production of new and better products which helps firm increase its market shares, reduce cost of production and increase competitive advantage (Cincera, Czarnitzki, and Thorwarth, 2011). Technological capability would be critical factor in enhancing the competitive advantage of SMEs in developing economies like





Nigeria. Through technological capability SMEs firms can create differentiation by reducing cost, produce qualitative product, shorter delivery time and create additional utilities.

## METHODOLOGY

A quantitative survey design technique was used to collect the data. Explicitly, subjective measures were used to measure the variables under study. Perceptions of owner/manager of about the items measuring the variables were assessed on a five-point likert scale. Specifically, 10 items were adapted from Ibrabim, (2016) to measure competitive advantage (CA), equally, 8 items used to measure innovation capability (IC) were adapted from Juho-Petteri, et al., (2010), while learning capability (LC) were measured with 7 items adapted from Hailekiros and Renyong, (2016). Similarly, management capability (MC) and technological capability (TC) were measured with 8 and 11 items respectively adapted from Halac, (2015), furthermore, marketing capability were measured with 4 items adapted from Kamboj and Rahman, (2017), while relational capability were measured with 9 items adapted from Pham, et al, (2017). Accordingly, a total number of 150 questionnaires were personally administered randomly on SMEs in Yobe state Nigeria. Out of the 150 questionnaires administered 84 were returned out of which 2 questionnaires were discarded as they were not correctly filled, thus 81 remained valid and were used for the analysis.

## Result of the Study

Table 1. Reliability Test

Variable	Number of Items	Cronbach's Alpha
Competitive Advantage	10	0.85
Innovation Capability	8	0.93
Learning Capability	7	0.70
Management Capability	8	0.92
Marketing Capability	4	0.90
Relational Capability	9	0.71
Technological Capability	11	0.92

The result of the reliability test as shown in the Table 1 indicates that all the variables under study are reliable based on the facts that the Cronbach's alpha values are all more than the minimum acceptable threshold of 0.6 (Hair, et al., 2017 Creswell, 2012). Specifically, the value of the Cronbach's alpha ranges from 0.70 to 0.93, this indicates that all the variables satisfied the requirement to be tested empirically as determinant of competitive advantage of SMEs in African economies.

## CONCLUSION

To create and enhance competitive advantage, SMEs firms must develop the necessary capabilities to discover and exploit competitive opportunities. SMEs firms must continually consider the improvement in the effectiveness of their innovative capability, learning capability, management capability, marketing capability, relational capability and technological capability. SMEs firms may succeed in achieving and enhancing competitive advantage in their industry within and outside the economy, if it creates and develop all the supportive strategic capabilities to improve the capacity to be aggressive and to respond effectively to market and environmental demands. Thus SMEs firms in developing economies of Africa are expected to nurture strategic capabilities to achieve and transform domestic competitive advantage into global competitive advantage to enhance their performance and national economic growth.

## Questionnaire

### Competitive Advantage

Code	Measurement Items	1	2	3	4	5
CA001	Our products are difficult for	1	2	3	4	5

CA002	competitors to copy.	1	2	3	4	5
CA003	Our product designs are unique.	1	2	3	4	5
CA004	Our ability to track changes in customer needs and wants is good.	1	2	3	4	5
CA005	Our surveillance of competitors is good.	1	2	3	4	5
CA006	Our collection of strategic information about customers and competitors for use with strategic planning is good.	1	2	3	4	5
CA007	Our company has quickness of response to meeting changes in customer needs and wants	1	2	3	4	5
CA008	Our company has being response adequately to customer complaints	1	2	3	4	5
CA009	Our firm has made efforts to make product/service changes to overcome customer dissatisfaction with existing products.	1	2	3	4	5
CA010	Our company has speed of dissemination of information in-house about competitors.	1	2	3	4	5
CA010	Our firm has response to competitive moves in the market place	1	2	3	4	5

### Innovation Capability

Code	Measurement Items	1	2	3	4	5
IC001	Our company regularly tries available new ideas.	1	2	3	4	5
IC002	Our company looks for new ways of doing things.	1	2	3	4	5
IC003	Our company is innovative in its operational methods.	1	2	3	4	5
IC004	Our company is consistently the first to market new products	1	2	3	4	5
IC005	Innovation is perceived as too risky in our company and is resisted.	1	2	3	4	5
IC006	Our company have increase the rate of introducing new product	1	2	3	4	5
IC007	Our company frequently develops new products that meet the customer's needs.	1	2	3	4	5
IC008	The new products developed by our company continually stir imitation from competitors.	1	2	3	4	5

### Learning Capability

Code	Measurement Items	1	2	3	4	5
LC001	Our company encourages knowledge sharing	1	2	3	4	5
LC002	Our company support participative decision making	1	2	3	4	5
LC003	Our management are committed learning	1	2	3	4	5
LC004	Dialogue is fully supported in our company	1	2	3	4	5
LC005	Openness and experimentation are part of our culture	1	2	3	4	5
LC006	Our company encourages and knowledge transfer	1	2	3	4	5
LC007	Our company encourages risk taking	1	2	3	4	5

### Management Capability

Code	Measurement Items	1	2	3	4	5
MC001	Our company management team has adequate knowledge about our industry	1	2	3	4	5
MC002	Our company management team has the required technical capabilities for the industry in which we operate	1	2	3	4	5
MC003	Our company management team have cordial relations with customers and suppliers	1	2	3	4	5
MC004	Our company management team	1	2	3	4	5



	has understanding capabilities to change environment					
MC005	Our company management team	1	2	3	4	5
	has the right leadership abilities					
MC006	Our company management team	1	2	3	4	5
	develop good relations with employees					
MC007	Our company management team	1	2	3	4	5
	has strategic planning abilities					
MC008	Our company management team	1	2	3	4	5
	shares our established vision					

**Marketing Capability**

Code	Measurement Items	1	2	3	4	5
MK001	Our company have the required product development capability	1	2	3	4	5
MK002	Our company has effective communication capability	1	2	3	4	5
MK003	Our company has efficient channel linking capability	1	2	3	4	5
MK004	Our company has develop competitive pricing capability	1	2	3	4	5

**Relational Capability**

Code	Measurement Items	1	2	3	4	5
RC001	Our firm has the capability to create relationship with new relevant partners	1	2	3	4	5
RC002	Our company has the ability to sustain relationship with existing partners	1	2	3	4	5
RC003	Our company has the capacity to develop mutual trust with all partners	1	2	3	4	5
RC004	Our company has the ability to develop mutual goals with all partners	1	2	3	4	5
RC004	Our company have the ability to build on the strength of our partners	1	2	3	4	5
RC005	Our company have the capacity to effectively communicate with partners	1	2	3	4	5
RC006	Our company have the ability to jointly engage with partners in problem solving	1	2	3	4	5
RC007	Our company have the ability to achieve target in negotiation	1	2	3	4	5
RC008	Our company has the capability to realize win-win with partners	1	2	3	4	5
RC009		1	2	3	4	5

**Technological Capability**

Code	Measurement Items	1	2	3	4	5
TC001	Our company is one of the pioneer in the industry that establish technology standard	1	2	3	4	5
TC002	Our company is one of the leader in our industry to upgrade technology standard	1	2	3	4	5
TC003	Our company have better competitive technology strategy in our industry	1	2	3	4	5
TC004	Our company have strong technological skills in numerous fields of operation	1	2	3	4	5
TC005	Our company leads in technology innovation in our industry	1	2	3	4	5
TC006	Our company is proficient in applying new technology to problem solving	1	2	3	4	5
TC007	Our company have the ability to accurately forecast changes in technological environment	1	2	3	4	5
TC008	Our company have the capacity to assimilate internal and external technological resources	1	2	3	4	5

TC009	Our company have the ability to invite and hire capable experts	1	2	3	4	5
TC010	Our company makes adequate investment in R&D undertakings	1	2	3	4	5
TC011	Our company improves technical expertise through constant training	1	2	3	4	5

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