LINKING COMPETENCIES WITH STRATEGIES: THE CASE OF SMALL AND MEDIUM-SIZED EXPORTING FIRMS IN KENYA

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ABSTRACT

The purpose of this study was to assess the relative importance of management competencies and competitive strategies among Kenyan exporting small- to medium-sized enterprises, and to determine if relationships existed between the managers’ ratings of the importance of competencies and the firms’ competitive strategies. The study adopted a cross sectional descriptive design. Stratified random sampling technique was used to select 60 firms from a population of 210 exporting firms. The strata were the three dominant exporting sectors in Kenya namely, the manufacturing, agricultural and the services. A standardized PDI instrument was used to collect data on managers’ competencies while a self-made questionnaire solicited data on competitive strategies. A survey was the major method of data collection. Data analysis included the use of basic descriptive statistics and the analysis of variance (ANOVA). The results indicated that while some competencies are equally important among exporting SMEs, others are not equally important. Some competencies were also found to be more important in some sectors than in others. The results showed that leadership, strategic thinking and organizational knowledge are cross sector or core competencies and they applied regardless of the function or type of organization. The relative importance of other competencies varied by sector type. Furthermore firms differed among themselves (by sector type) with respect to the competitive strategies they used to pursue their export activities. The services sector competed mostly by the differentiation strategy, the manufacturing sector competed mostly on the low-cost strategy while most of the firms in the agricultural sector employed the focus strategy. Firms were also found to be strategically flexible. Lastly, it was found that the relationships between certain competencies and competitive strategies could differ significantly among the exporting firms. The results further emphasized the importance of a firm’s competencies in achieving certain competitive strategies. The notion of strategies and competencies among SMEs in Kenya was also found to be very different from the conventional ones. These findings have both theoretical and practical considerations for the exporting firms, HRD educators, policy makers, and researchers. The most significant conclusion was that the relative efficacy of competencies is likely to be context dependent and that sustainable competitive advantages are likely to result if firms increase their competencies on a continuous basis.

Key Words: Competencies, Strategies, Small and Medium-sized Firms, Exporting SMEs
Introduction

Small and medium-sized enterprises (SMEs) make a significant contribution in the global economy. It is estimated that SMEs make up more than 90% of all new business establishment worldwide (World Bank, 2014). They have been identified by the Western economies as a significant strategy of job and wealth creation. Most SMEs in the developed world participate in the export markets and this increases their value in real economic sense. In the developing countries, there has been a considerable interest in the role of SMEs in economic regeneration in general and the creation of employment opportunities in particular. Export-oriented SMEs in these developing economies are a major source of economic growth.

By exporting a proportion of their sales, medium-sized and small firms can stimulate economic development and make a significant contribution to the reduction of national balance of payments deficits (Walters and Samiee, 1990, ROK 2013). The ability of a small firm to export a proportion of its sales is increasingly being regarded as an important measure of competitive performance. Researchers have also suggested that exporting is a necessary ingredient ensuring the survival and the growth of small firms (D’Souza and McDougall, 1989; Subramanian, 1998). To encourage wealth creation and job generation, many policy-makers and practitioners are encouraging more export capable firms to operate globally. For example, the World Trade Organization (WTO) is encouraging small firms in the developing world to consider direct exporting, strategic partnerships, and technology alliances (Scottish Enterprise Promotion, 1999; Subramanian, 1998; Williams, 2008).

Currently, Kenya is pursuing an export promotion strategy because exporting is increasingly seen as an opportunity for business growth and increased profitability among small-to medium-sized firms (Government of Kenya, 2009, 2012, 2013; World Bank, 2014). Considering Kenya’s imperfect labor market, and the inability of the modern sector to absorb surplus labor, a fast growing SMEs export sector is likely to provide the necessary stimulus for private sector growth.

One of the greatest challenges facing Kenya is the creation of productive employment opportunities for its rapidly increasing workforce (Republic of Kenya, 2013). The small-to medium-sized enterprises, which fall within the private sector, have employed a majority of Kenyans who have not been absorbed in the public, large private and not-for-profit sectors (Republic of Kenya, 1999, 2008, 2009, 2012, 2013)). In the last three decades, there has been a growing awareness of the importance of developing entrepreneurship and small business management in Kenya for sustained economic growth, rapid employment generation and poverty eradication (Government of Kenya, 1992, 1999; 2012; 2013; World Bank, 2014). In Kenya, a 2013 baseline survey found that small- to medium-sized enterprises employed about 50% of youths and women and they accounted for approximately 79.6% of the total labor force (Republic of Kenya 2013). Ngugi & Bwisa, (2013) also noted that SMEs accounted for a significant proportion of economic activities in Kenya’s urban and rural areas; generating over 70% of all new jobs annually. They further indicated that the role of SMEs in terms of employment creation, income generation, economic diversification and growth, make the
sector an important factor in future industrial development for the country. The SMEs form one of the fastest growing and most dynamic sectors of the Kenyan economy. They are estimated to be growing at an annual rate of 12% even in lean years; the export sub sector contributes to the growth index substantially (Bokea and Mullei, 1999; Republic of Kenya, 2012, 2013).

The limited resources bases of many SMEs can, however, retard the ability of firms to break out of domestic markets: To enter export markets, a firm may need to gather information and resources. Moreover, owner-managers need to plan and make strategic decisions. Exporting requires new knowledge and information, new ways of advertising and selling, and familiarity with foreign cultures and ways of doing business. In spite of the uncertainties, difficulties, and risks, some small and medium-sized entrepreneurial firms explore the possibilities, make the necessary adjustments, learn the necessary skills, and continue to seek out foreign markets for their products/services. Those firms are generally considered as very competitive (Buckley et al., 1990; Sithole, 2007). Many variables are associated with SMEs’ competitiveness; key among them are management competencies (Adam and Chell, 1993; Chandler and Hanks, 1994; Haar and Ortiz- Bounafina, 2002; Moini, 1995) and business strategies (Dess and Davis, 1980, 1984; 1989; Namiki, 1988; Porter, 1980, 1985, 1991; Schuler and Jackson 1987). However, research dealing with the nexus between competencies and competitive strategies is sparse (Westhead and Wright, 2000). In spite of the growing interest concerning SMEs exporting activities, little is known about their activities, particularly how they manage their operations, how they become new key players in the highly competitive global marketplace (Anderson, 2001; Subramanian, 1998).

In Kenya, most of the growth in exports is expected to come from the SMEs (Republic of Kenya, 2013). The ability of a firm to export a proportion of its sales is increasingly being regarded as an important measure of competitive performance. Sithole (2007); Hornaday and Churchill (1987) posited that understanding the core factors that contribute to the success of firms is an important area of inquiry.

The Research Problem

There has been limited research conducted to date to help understand management competencies and competitive strategies used by the small and medium-sized exporting firms in Kenya (Republic of Kenya, 2012, 2013; Subramanian, 1998). Past studies have found that competencies play critical roles in the formulation and implementation of strategies; however, the nexus between competencies and strategies has not been established. Furthermore, there are no data available in Kenya about management competencies and strategies of small and medium-sized enterprises, yet the country is pursuing an export promotion strategy aimed at stimulating economic development (Republic of Kenya, 1999; 2012, 2013). To encourage wealth creation and job generation, policy- makers and practitioners are seeking to encourage more export capable firms to operate globally. Researchers have also suggested that exporting is a necessary ingredient in the survival and the growth of small firms (Republic of Kenya 2013, 2012; D’Souza and McDougall, 1989).
A review of dissertations, journals articles, periodicals reveals that most of the past studies have been conducted on large firms and, mainly in the industrialized world (Caves and Dunning, 1993; McDougall, 1989; Westhead, 1995; Anderson, 2001, 1996). Scholarly understanding of enterprises in the developing world is limited (Yeung, 1994), and no empirical data pertaining to the activities of SMEs exists (Lall and Foy 2001; Sithole, 2007; Williams, 2008; Mwiti, 2013). Moreover, within the small amount of literature on the developing world’s global and/or international trade, most attention has been given to their investment size (Republic of Kenya, 2009, 2012, 2013; Moyi and Kimuyu, 2010; Lecraw 1993), entry strategies (Pangarkar, 1998) and the relationships between the parent and the subsidiary firms (Yeung, 1994). Little is known about the management activities and competitive strategies of SMEs (Moyi and Kimuyu, 2010; Graham and Ndii, 1999). McDougall et al., (1994) emphasized the fact that virtually nothing is known about the management practices of exporting firms in the regions outside North America, Europe and Japan. What also exist in literature are specific case studies on the Newly Industrializing Countries’ internationalization entry strategies (Wangwe, 1994). To a large extent the existing body of literature does not address management competencies and strategies of small- to medium-sized firms. It is in the light of the above consideration that it was necessary to carry out a study to analyze the SMEs’ management competencies and how they relate to the firms’ competitive strategies.

**Purpose of the Study**

The purpose of this study was to assess the relative importance of management competencies and competitive strategies among Kenyan exporting SMEs and to determine whether relationships existed between the managers’ ratings of competencies and the firms’ competitive strategies.

**Research Questions**

1. Which competencies do managers of small and medium-sized exporting firms in Kenya consider most important to their businesses?
2. What competitive business strategies are those firms pursuing?
3. What is the relationship between the managers’ ratings of the importance of competencies and the firms’ competitive strategies?

**Literature Review**

**The Theoretical Framework**

The theoretical perspectives underlying this study fall within the competence-based management theory (Hamel and Heene, 1994; Hamel and Prahalad, 1994; Prahalad and Hamel, 1990; Sanchez and Heene, 1997, 1996; Sanchez, Heene and Thomas, 1996; Thomas, Sanchez and Heene, 1996), and Porter’s Conceptual framework (1980, 1985, 1991; Dess and Davis, 1984). The study takes the position that congruence between strategies and
competencies is desirable if firms are to compete in export markets. The two theoretical perspectives are discussed in the following sections.

**Competence-Based Management Theory**

The competence-based management theory views organizations as bundles of skills, assets, knowledge and capabilities. From the perspective of this theory, competence is the ability of an organization to sustain coordinated deployment of resources in ways that promise to help the organization achieve its goals. The theory emphasizes competencies are particularly relevant for obtaining a sustainable competitive advantage. The proponents of the competence-based perspective have developed an analysis defending the dominance of firm effects over industry effects over time (Rumelt, 1991; McGahan and Porter, 1997). They have posited that several internally focused approaches could lead to superior performance by firms. These internally focused perspectives see strategy as being both constrained by and dependent upon the firm’s profile of resources. According to this theory, a firm can be considered a unique bundle of resources; its competitive position may, in fact be more a function of its competence portfolio than its market position (Rumelt, 1987; Sanchez and Heene, 1997). The competence-based theory interprets the differences in firms’ profitability as stemming from differences in the streams of rents accruing to firms, which are themselves affected by differences in the control and management of strategic competencies (Winter, 1987, 1995). From a managerial point of view, understanding variations in success that can be explained by differences in competencies are perhaps the most important ones because they are under the control of the company.

The competency-based approach is an extension of the resource-based view that attributed differences in performance to internal resources of a firm (Penrose, 1959). Penrose argued that qualitative differences between competencies underlying production help explain firm heterogeneity and intra-industry firm performance differences. According to resource-based view, the firm is a coherent, administrative organization which is characterized by resources that are in some way specific to it—even if only by their internal coherency (i.e., relative to all other things inside and outside the organization). These resources provide an inducement to expand and a limit to the rate of expansion. Both theories view the firm as a bundle of resources (knowledge, skills, attitudes, aptitudes, capabilities) that provide the firm with a competitive advantage. Barney (1991) extended this theory by suggesting that firms that develop superior resources and capabilities will generate superior profits.

The competence-based approach to management offers a major theoretical framework for the analysis of organizations. It provides insightful and encompassing theory that studies holistically the organization as an open system. The model recognizes the need for the organization to coordinate its assets, competencies, and skills. This model has been used in several studies, which identified competencies of managers (Adam and Chell, 1993; Durkan, Harrison and Lindsay, 1993; Lau, et al., 1998; Tweed and McGregor, 2000). Both the resource-and competence-based views emphasize competencies; but do not link competencies to how firms compete in different contexts.
Porter’s Conceptual Framework

The present study also applied Porter’s (1980) strategy conceptualization model. Porter (1980) posited that there are three generic business level strategies that firms use to compete in an industry: the low-cost strategy, the differentiation strategy and the focus strategy. The low-cost leaders strive to reduce cost to their lowest level so as to remain competitive in the market; the differentiators strive to create unique products/services at reasonable costs; while the focusers strive to reduce the scope of their intended audience for the product/service by serving a market segment whose needs are different from those of the larger market.

This study chose to use Porter’s conceptualization because it is academically accepted and internally consistent (Dess and Davis, 1984). Empirical studies have also found that Porter’s typology is a generic competitive strategy model that can be used by smaller firms (Changnti et al., 1989) Porter’s competitive strategies have also been studied, validated, and used in many studies in the small firms’ settings (Aaker, 1998; Changnti, Changnti and Mahajan, 1989; Dess and Davis, 1984; Namiki, 1988; Schuler and Jackson 1987; Wolff and Pett; 2000). In addition, Changnti et al. (1989) also found support for the contention that Porter’s framework also applies for small businesses. However, past studies have not analyzed the link between strategy and competencies.

The low-cost leadership emphasizes creating competitive advantages by generating and maintaining low cost positions relative to competitors. Low-cost producers typically have a broad scope and may even serve many industry segments, and even operate in related industries. The firm’s breadth is often important to its cost advantage. Low-cost producers typically sell a standard or no-frills product but the product must be comparable to the competitors’ in terms of valued features. Cost leaders must achieve parity or proximity in the bases of differentiation relative to competitors in order to be above-average performers, even though they rely on cost leadership as their competitive advantage. They also place considerable emphasis on reaping absolute cost advantage from all sources. At equivalent or lower costs than their rivals, cost leaders’ low costs positions translate into higher returns. According to Porter (1980), the sources of cost advantages are varied and depend on the structure of the industry. They may include pursuit of economies of scale, lower overall costs, a convenient location, and preferential access to raw materials, proprietary technology and many other factors. Cost advantages results if a firm achieves lower cumulative costs of performing business than its competitors.

A differentiation strategy requires firms to create products and / or services that are recognized industry wide as unique. In a differentiation strategy, a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. It seeks one or more attributes that buyers in an industry perceive as important, and uniquely positions itself to meet those needs. In return, it is rewarded for its uniqueness with a premium price. The means of differentiation are peculiar to each industry. Differentiation can be based on the product itself, the delivery system, the marketing approach and a broad range of factors such as providing excellent customer service and support or developing unique capabilities (Porter, 1980, 1985). The logic of differentiation requires that a firm choose attributes in which to
differentiate itself that are different from its rivals. A firm must be truly unique at something or be perceived as unique if it is to expect a premium price. A differentiator cannot ignore its cost position, because its premiums will be nullified by a markedly inferior cost position. Differentiators thus aim at cost parity or proximity relative to its competitors by reducing costs in all areas that do not affect differentiation.

A firm pursuing the focus strategy concentrates on a particular group of customers, geographical markets, or product line segments. The focuser selects a segment or a group of segments in the industry and tailors its strategy to serving them to the exclusion of others. Typically the target segment has buyers with unusual needs from that of other industry segments. By optimizing its strategy for the target segments, the focuser seeks to achieve a competitive advantage in its target segments. Porter’s idea of a focus strategy is basically to reduce the scope of the intended audience for product or service. It is a niche strategy used to reach a market segment whose needs are different from those of the larger market.

During the last several years, definitions of Porter’s generic strategies have been refined to identify combinations of strategy types and subtypes within the three areas. For instance Dess and Davis (1984) contended that a firm may pursue both differentiation and low cost strategies and by so doing may outperform other firms in an industry. It has also been found that firms have many different ways of differentiating themselves from competitors, e.g., through technological development, marketing techniques and service orientation (Dess and Davis, 1984). Firms oriented to toward a specific strategy tend to outperform those that do not (Dess and Davis, 1984).

Overview of Competencies and Competitive Strategies

The competencies of a manager, particularly, those leading to superior performance and success, are consistently among the top concerns in the small business management literature (Lau, Chan and Man, 2000). Several frameworks of competencies exist in literature (Adam and Chell, 1993;;Chandler and Hanks, 1994; Chandler and Jansen, 1992, Hezlett, Ronnkvist, Holt and Hazucha, 1997); however, Masakowski and Mckelvey (1997) have argued that there is need for a basis for selecting which of those vast numbers of organizational competencies are in fact those that contribute to better performance by firms. In response, Sanchez and Heene (1997), and Durand and Quelin (2000) have suggested a holistic approach that links competencies with business strategies. The main argument is that management competencies are not solutions in and of themselves, but part of an overall system to support the business strategy being pursued by firms. Organizations that wish to attain or retain a competitive advantage in the increasingly global market must ensure that managers possess the desired competencies and that those competencies are strategically aligned with the business strategies (Hamel and Prahalad, 1996). Rather than promote a dichotomy between business strategies and competencies, organizations must integrate these activities to create a sustainable competitive advantage (Sanchez and Heene, 1997). This kind of integration is more important in small and medium-sized firms where the competencies of the owner-managers are virtually synonymous with the notion of organizational competence (Tweed and McGregor, 2000).
Organizational literature confirms that a manager’s role and commitment are critical to the successful implementation of strategies and innovations (Rivera-Camino, 2001). It also recognizes that the performance of organizations depends to a large extent on the ability of managers to administer firms’ operations. In another study Peyrefitte, Fadil and Thomas (2002) found that competencies indeed played critical roles in the formulation and implementation of strategies. Combining strategy and competencies should therefore be a vital source of competitiveness for all organizations as they face intense global competition, faster product life cycles, increased economic uncertainty, recession, increased customer awareness and increased use of information technology (Chan and Artmangkorn, 2002).

Several theoretical as well as empirical studies have addressed the issue of matching strategy and other aspects of the firms. Gupta and Govidarajan (1984) focused on the strategy-manager fit at the strategic business unit level; Namiki (1988) focused on competitive patterns and firms’ performance; Wolff and Pett (2000) studied the relationships among competitive strategies, firm size and performance. None of the studies has linked business strategies and the several competency frameworks/models that exist in literature. This study has attempted to establish such a linkage. Several other studies (Export Promotion Council, 2002; Foy, 2001, Schuler, 1992; Youndt, Snell, Dean, and Lepak, 1996) suggest that more research is needed to determine the extent of the relationship between management competencies and competitive strategies employed by the smaller firms in the market place. The extent of scholarly investigation of this phenomenon is limited, especially in Kenya.

Managerial Competencies in SMEs

Managerial competencies operate differently in small firms compared to large organizations. Management process in small firms is unique and cannot be considered to be the same as professional management in larger organizations practiced on a reduced scale (Jennings and Beaver, 1997). In small firms, managerial processes that are applicable in the context of various roles may all reside in one individual and the personality and the experience of the manager (or managers) influence the management process. Managers in small firms are better characterized as bundles or portfolios of competencies. Some of these competencies may be technical or functional and thus related to a particular job. Others are behavioral, that is, much linked to the personal traits and motives, social roles, and constructed self-image and as such much more readily transferable from one job to another.

Managerial competencies therefore relate to the ability of the firm to organize so as to function competitively in different contexts, to apply its technical capabilities in a way, which successfully attains the firm’s goals. Managerial competencies, also called resources, are critical to continued expansion of the firm. Managerial competencies in firms allow the incorporation of new assets and capabilities while maintaining efficient management. At the same time, these competencies coordinate the employment of assets in ways that are newly effective, truly value adding, not just preventing the erosion of those resources. Competence in organizing, directing, and controlling networks of firms’ assets add value in their own right as the managerial resource which binds the dispersed and the disparate assets and capabilities of the firm (Cantwell and Piscitello, 1997).
Managerial Competency Models and Studies

The American Management Association Competency Model

The American Management Association (AMA) developed a competency model, which is a criterion-validated model that describes competencies of managers in both public and private sectors and casually links it to performance (Evarts, 1988). The study, by Mcber Consulting used the findings of Boyatzis (1982) and came up with competencies of what they termed as high and average performing managers. The study used three types of measures of work performance; job output measures, supervisory ratings, and peer nomination ratings to get the required competencies. The second step was job element analysis to weight characteristics that managers perceived as important in distinguishing superior from average performers. The third step was the use of the critical incident interview to get descriptions of the individual management performance. The fourth step was to use tests and measures in assessing various competencies. The last step was to integrate the results of the fourth step and specify the characteristics of excellent managers in a sample, which differentiated them from average or poor performers. The identified competencies were: efficiency orientation, pro-activity, diagnostic use of concepts, concern with impact, self confidence, oral presentation, conceptualization, use of socialized power, managing group process and perceptual objectivity. The competencies were clustered into four categories: goal and action management, directing subordinates, human resource management and leadership. Evart (1988), perceived a competency as an underlying characteristic of a manager that causes superior performance on the job. A competence encompasses the entire range of performance, which may be of varying degrees. In other words competencies are measurable.

The Personnel Decisions International Competency Model

Personnel Decisions International (PDI), a consulting company, developed a model that describes managerial performance and effectiveness. The model drew on the studies in management, psychology and assessment center literature (Holt and Hazucha, 1990). The model defined eight competency factors of management and 24 skill dimensions. This model was further developed into a competency instrument that is commonly used in managerial studies. This study adopted the PDI instrument because it is validated and research based.

The PDI instrument is a result of several decades of consulting experience and research on management. In 1983, the PDI research drew heavily on theories of management behavior and performance and developed a model of 8 primary factors of management that included 24 skills, which they called Management Skills Profile (MSP) (Hezlett, Hazucha, Holt and Ronnkivist, 1997; Holt and Hazucha, 1990). The eight competencies in the model are: Strategic thinking factor, leadership factor, administrative factor, communication factor, motivation factor, interpersonal skills factor, self management factor and the organizational knowledge factor. These competencies were transformed into a standard instrument measuring eight competencies.
Research Methodology

This study adopted a cross-sectional descriptive survey design. This design was deemed to be appropriate because it was used to describe relevant aspects of a phenomenon of interest in a particular situation. In this case, the relevant aspects were the competencies and strategies of exporting SMEs. Descriptive designs are also useful when investigating a sample of a population with the objective of learning the how, who, why, what of a topic (Sekaran 2003).

The target population for this study was small-to-medium-sized exporting firms in Kenya. This population consisted of 210 exporting firms that were located in Nairobi and its environs. This population was chosen because it represented small-to-medium-sized firms that were generally considered as very competitive and relatively successful, mostly because of their ability to export a proportion of their sales. They therefore provided a good base to gather a representative sample of the different competitive strategy types as stipulated by Porter (1980, 1985). A sampling list of approximately 300 exporting firms was obtained from the Export Promotion Council of Kenya (EPC), which keeps updated lists with brief descriptions of all exporters in the country. Sampling was conducted in two stages. The researcher examined the descriptions of the firms filed with the EPC and selected firms based on the following criteria: First, the firms must have fitted into the category of small-to-medium-sized firms; defined as those employing up to 50 workers for the small scale category and up to 200 workers for the medium-sized category. Second, the firms must have been independent exporters; this requirement excluded all cooperative societies and firms from the Export Processing Zones (EPZs). These categories of firms have unique structures, and they also have access to other forms of institutional support that independent smaller firms lack. Third, the firms must have at least been five years old since the year of inception as exporters. A minimum of five years was considered to be long enough to indicate survivability and export capability of the firms. This criterion is the same as that one used by Keenly (1988) in his investigation of successful entrepreneurial ventures. Fourth, the firms must have been established and consistent exporters, that is, they must actually have been selling products/services in the international markets, and not just conducting start-up R&D and other activities or experimenting; sporadic exporters were therefore excluded. Fifth, they must have been located within Nairobi and its environs. This restriction allowed for a sample that executed their businesses under similar environmental conditions such as the physical and institutional infrastructure.

From the original listing, 210 firms met the aforementioned criteria. Stratified random sampling technique was used to select 60 participants from the sampling list. The firms were grouped into three strata by sector type and then randomly selected. The export industry consists of diverse sectors. The most dominant ones were the manufacturing, services, and the agricultural sectors. Stratified random sampling ensured that the existing subgroups in the population were represented in the sample.

Two survey instruments were used in this study: a Standardized Competency Questionnaire developed by Personnel Decisions International (PDI and a self-made instrument that sought strategy and demographic data. Strategy items were derived from Porter’s conceptual
framework. The competency instrument was identified and used because is based on empirical research and is extensively validated (Hazucha, 1990, 1991; Hezlett et al., 1997). The instrument had already been tested, used and published in many studies. There were eight competencies in this instrument: strategic thinking, administrative, leadership, interpersonal relations, communication, motivation, self-management and organizational knowledge. Cronbach coefficient alpha was used to assess the reliability of the scales on the Kenyan sample and the following alpha values were obtained: Strategic thinking .68, administrative .94, leadership .61, Interpersonal .96, communication .93, motivation .67, self-management .97, and organizational knowledge .70. Given the exploratory nature of the study, these values were considered to be good enough (Aron and Aron, 1999).

Both instruments were pilot tested on fifteen firms that were not participating in the final study. The pilot test results were used to revise the instruments and also aided in establishing the framework for data gathering.

The method of data collection was a survey. Data were collected from owner managers of small firms and general managers of medium-sized firms through self -administered questionnaires. A single-informant approach was chosen, because managers were expected to possess the best overview of company competencies and of the competitive strategies being pursued by the firms. Those firms that were declining to participate were compared to those that were accepting and there were no differences between the two groups in terms of basic characteristics such as the primary business activities, size, location and age of the firm. Non-response bias was therefore not an issue in this survey.

The respondents indicated their perception of the importance of each of the competence by choosing a number on seven-point likert-scale: 7-6 critically important, 5-4-3 very important and 2-1 important. The PDI provided algorithms for scoring of the competence items. Means and Standard deviations for importance of competencies were computed by sector type. Analysis of variance (ANOVA) was further used to determine if there were any significant differences in the ratings of competencies by the three different sectors.

For the second question, analysis involved computing frequency distribution of firms across the three strategies. The competitive strategies that were investigated are Porter’s (1980) articulated typology that includes the differentiation strategy, low -cost strategy and the focus strategy.

For the third question, repeated measures of analysis of variance (ANOVA) were used to analyze the relationship between the managers’ ratings of importance of competencies and the firms’ competitive strategies. The purpose of ANOVA was to determine whether firms with different business strategies differed significantly in terms of mean competency scores. Descriptive and inferential statistics were calculated using the SPSS statistical analysis program. The results of the study are reported below
Findings and Discussions

Ratings of Importance of Competencies by SMEs managers

The first research question required respondents to rate the competencies they perceived to be important to their jobs. A standard competency instrument, developed by PDI (Personnel Decisions International, 1997, 2003) was used to measure the importance of competencies among managers of exporting SMEs. The instrument had 24 skills that measured eight competencies namely: strategic thinking, administrative, leadership, interpersonal relations, communication, motivation, self-management and organizational knowledge. Respondents were asked to rate the importance of competencies on a seven-point scale as follows: 7-6 critically important, 5-4-3 very important, and 2-1 important. The responses were analyzed in the same way as PDI (1997, 2003, 2010) that categorized competency responses as follows: those with a mean value above 6.00 were considered as very high in importance; those with a mean rating above 3.00, were deemed to be of considerable importance; and when the mean rating was below 3.00, the competency was perceived as moderately important. The higher the mean, the most important the competence is; therefore high ratings were better than low ratings.

Table 1 shows the results, three competencies namely strategic thinking (Mean=6.66), leadership (Mean=6.42) and organizational knowledge (Mean=6.69) were rated as extremely important by all firms in the study sample. These three appear to be core competencies in the exporting industry and they apply regardless of the sector of operation, the results suggest that these competencies are ‘universalistic’ in some sense. The findings reinforce the assertion by Rumelt (1994) that core competencies allow all managers in the firms to make changes and apply new knowledge at the appropriate times regardless of the specific products/services or markets. At a general level, the mean importance ratings given to the rest of the competencies show that they were deemed to be of considerable importance. This finding is consistent with that of Lau, Chan and Man, (2000) who viewed organizations as bundles of competencies.

Table 1 General Ratings of Competencies

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<th>N</th>
<th>M</th>
<th>SD</th>
<th>Alpha</th>
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<td>Strategic thinking</td>
<td>60</td>
<td>6.66</td>
<td>0.31</td>
<td>.60</td>
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<tr>
<td>Administrative</td>
<td>60</td>
<td>4.13</td>
<td>1.77</td>
<td>.94</td>
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<tr>
<td>Leadership</td>
<td>60</td>
<td>6.42</td>
<td>0.24</td>
<td>.61</td>
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<th>N</th>
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<tbody>
<tr>
<td>Interpersonal</td>
<td>60</td>
<td>3.30</td>
<td>2.04</td>
<td>.96</td>
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<tr>
<td>Communication</td>
<td>60</td>
<td>4.74</td>
<td>1.37</td>
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<td>Motivation</td>
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</tbody>
</table>
Further analysis of competencies by the sector type showed that some competencies are very important to some sectors than others. Table 2 shows that besides the three competencies that were rated as extremely high in importance by all firms, the agricultural sector rated two more other competencies; interpersonal relations (Mean= 6.12) and self management (Mean=6.28) as extremely important. The manufacturing sector rated one more competence, the administrative (Mean=6.50) as extremely important, while the services sector’s additional critical competence was communication (Mean=6.57). The differences in these ratings were statistically significant (see Table 3). The mean importance ratings given to these competencies can be seen to be relatively high; this portrays a high degree of homogeneity in the sub samples, and to some extent, a greater divergence within the entire sample. Generally, these results indicate that some competencies are more important in some exporting sectors than in others. Competencies seem to play different roles in different sectors. This finding is in agreement with that of Jennings & Beaver (1997) who noted that competencies were dynamic rather than static in their interaction with contextual and temporal flexibility of the SMEs.

Table 2: Means, Standard Deviations, and ANOVA Results for Competencies across the Three Export Sectors

<table>
<thead>
<tr>
<th>Competencies</th>
<th>Agriculture</th>
<th>Manufacturing</th>
<th>Service</th>
<th>Between-group</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean</td>
<td>SD</td>
<td>Mean</td>
<td>SD</td>
</tr>
<tr>
<td>Strategic thinking</td>
<td>6.58\textsuperscript{a}</td>
<td>0.34</td>
<td>6.63\textsuperscript{a} 0.32</td>
<td>6.78\textsuperscript{a} 0.26</td>
</tr>
<tr>
<td>Administrative</td>
<td>3.38\textsuperscript{b}</td>
<td>0.39</td>
<td>6.50\textsuperscript{a} 0.32</td>
<td>2.53\textsuperscript{c} 0.44</td>
</tr>
<tr>
<td>Leadership</td>
<td>6.27\textsuperscript{a}</td>
<td>0.29</td>
<td>6.38\textsuperscript{a} 0.13</td>
<td>6.61\textsuperscript{b} 0.09</td>
</tr>
<tr>
<td>Interpersonal</td>
<td>6.12\textsuperscript{b}</td>
<td>0.35</td>
<td>1.95\textsuperscript{a} 0.33</td>
<td>1.83\textsuperscript{b} 0.40</td>
</tr>
<tr>
<td>Communication</td>
<td>3.90\textsuperscript{b}</td>
<td>0.55</td>
<td>3.75\textsuperscript{b} 0.43</td>
<td>6.57\textsuperscript{a} 0.29</td>
</tr>
<tr>
<td>Motivation</td>
<td>5.03\textsuperscript{a}</td>
<td>0.66</td>
<td>5.23\textsuperscript{a} 0.44</td>
<td>4.55\textsuperscript{b} 0.46</td>
</tr>
<tr>
<td>Self-management</td>
<td>6.28\textsuperscript{a}</td>
<td>0.39</td>
<td>2.27\textsuperscript{b} 0.34</td>
<td>2.48\textsuperscript{b} 0.46</td>
</tr>
<tr>
<td>Org. Knowledge</td>
<td>6.63\textsuperscript{b}</td>
<td>0.36</td>
<td>6.50\textsuperscript{b} 0.00</td>
<td>6.95\textsuperscript{a} 0.15</td>
</tr>
</tbody>
</table>

Note. Means superscripted with the same letter are not statistically significant at p<. 05.

Repeated measures of ANOVA were then conducted to determine whether statistically significant differences existed in the ratings of the competencies among the three sectors. Results from the ANOVA (Table 2) indicate that tests for the total effects showed significant differences in the ratings of seven competencies by the sectors at the p<. 05 significance level. The competencies with significant differences in ratings are administrative (p < .0001), leadership (p=. 0001), interpersonal relations (p< .0001), communication (p< .0001), motivation (p=. 0005), self –management (p < .0001), and organizational knowledge (p=. .0001). Table 2 shows that there were no significant differences among the three sectors in the rating of the strategic thinking competence. The p value for the F test is 0.11. It appears
that the strategic competence is of equal importance to all firms in this study sample. Managers in this sample were top executives with ultimate responsibility; they probably had fundamental roles in the strategic decisions of their firms.

The leadership competence was of high importance to all firms but it was significantly important to the services firms. It appears that the role of a manager in the SMEs’ context goes beyond the conventional approach that is concerned mainly with how things get done, to include leadership competencies. This finding lends support to that of Kotter (1983) who concluded that leadership is an essential competence for all managers. The ANOVA results showed that this competence was most critical to the services firms, which were competing mostly by differentiation. One explanation for this difference in ratings may be that differentiation requires a higher degree of risk-taking behaviors, which in turn need strong organizational leadership. The interpersonal relations competence was rated highly by the agricultural firms but it received significantly low ratings by the manufacturing and the services sector firms. It seems that this competence helps managers in building relationships with the numerous stakeholders in the agricultural sector. It also appears to be the means through which firms focused efforts on discovering and meeting the needs of their customers.

The communication competence was most important to the services firms compared to the other two sectors. One reason for this high rating could be related to the differentiation strategy that the services firms were using to compete; they therefore had a strong need to communicate the differentiated features of their services to the consumers. Mobilizing innovations and change relies on internal communications within and without the firm. This finding is in congruent with that of Rogers (1995) who indicated that innovation in firms thrives on communication.

The three sectors placed different emphases on the administrative competence. It appears that the competence plays different roles in different sectors. It was very important to the manufacturing sector compared to the agricultural and the services sectors. Manufacturing firms in this sample were practicing the low-cost strategy and they probably needed to pay more attention to the administrative tasks. This finding is consistent with Youndt et al. (1996) finding that firms that have a higher need for cost cutting tend to focus on administrative tasks.

**Additional Competencies**

At the end of the PDI instrument, an open-ended question was provided that allowed the respondents to add their own thoughts and ideas beyond what the standardized instrument asked them to do. Forty-five managers responded to this question. Seventy one percent indicated that flexibility was an important competence. Information seeking was identified as an essential competence by 84% of the firms that responded to this question. A further 51% identified networking as an important competence. Cross-cultural responsiveness was identified by a further 64%. In summary, the data shows that exporting SMEs possess what may be termed as core competencies that apply to different firms, and they also exhibit differences among themselves in the emphases they place of certain competencies. The data also seem to indicate that SMEs operate on multiple competencies.
Competitive Strategies Pursued by the Sample Firms

The second research question explored the strategies used by smaller firms in carrying out export activities. The variables used to measure firms’ competitive strategies were developed from Porter’s (1980) conceptual framework. However the Kenyan SMEs had different perspectives of those strategies: Differentiation meant imitation and modifications of products and services, while the low- cost strategy was used to refer to cost cutting practices such as joint purchasing, joint production and joint marketing and joint distribution.

The analysis revealed that firms used varied strategies; they also differed among themselves with respect to the competitive strategies used in their export activities; this finding is in agreement with Porter’s (1985) who argued that the emphasis of each of the generic strategies is decidedly different. The analysis also showed that firms in the same sector tended to respond in a similar manner to a given competitive context. Firms in the services sector primarily pursued the differentiation strategy, one explanation for this tendency could be that most service ideas cannot be protected through copyrights or patents; service firms must continuously innovate. Those in the manufacturing sector competed mostly on the low-cost strategy while firms in the agricultural sector predominantly employed the focus strategy. Given that data for this study were collected when Kenya’s economy was undergoing a harsh recession, it is not surprising that most of the manufacturing firms were concerned about cutting costs’ These findings suggest that firms tend to find a match or a fit between the demands of its competitive environment and its internal systems.

The results also showed that firms are strategically flexible, at least 78% of the responding firms were using more than one competitive strategy; they employed one primary strategy and a secondary one. The results showed that the firms in the agricultural sector, which were competing mostly on the focus strategy, were also practicing the differentiation strategy, and that the services and the manufacturing sectors firms were also practicing the focus strategy. From this finding, it seems that the SMEs were practicing a differentiation focus and focus low-cost strategies that are commonly associated with smaller firms. It involves finding a unique narrow market segment and providing it with differentiated or low cost products/services.

Table 3: Frequency Distribution of Firms across Competitive Strategies

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Most commonly used strategy</th>
<th>2nd most commonly used strategy</th>
<th>3rd most commonly used strategy</th>
<th>Not used at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>Differentiation strategy</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agricultural</td>
<td>1</td>
<td>12</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>11</td>
</tr>
<tr>
<td>Service</td>
<td>19</td>
<td>1</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>24</td>
<td>15</td>
<td>5</td>
<td>16</td>
</tr>
<tr>
<td>Low Cost Strategy</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agricultural</td>
<td>2</td>
<td>3</td>
<td>9</td>
<td>6</td>
</tr>
</tbody>
</table>
Overall, these results show that firms within the exporting industry pursue different types of strategies. They also reveal that each sector tends to emphasize one strategy type more than the others. However, some firms practiced strategic flexibility, which is indicative of the existence of another competitive pattern, the differentiation focus strategy and the focus low-cost.

The Relationship between Strategies and Competencies

The third question sought to establish the relationship between the managers’ ratings of the importance of competencies and the firms’ competitive strategies. Repeated measures of analysis of variance were conducted to determine if firms competing on different competitive strategies differed significantly in terms of mean competency scores. Results from ANOVA (Table 4) show that there are significant differences in the mean scores of seven competencies across the three competitive strategies. This shows that the relationship between certain competitive strategies and competencies can differ significantly among firms. The administrative competence was very important to the firms competing on the low-cost strategy, the communication competence was very important to the differentiating firms while the focusers valued the interpersonal and the self-management competencies more than the differentiators and the low-cost firms. Motivation was equally important to the firms competing on the three competitive strategies.

Table 4: ANOVA Results and Mean Scores of Competencies Across Competitive Strategies

<table>
<thead>
<tr>
<th>Competencies</th>
<th>Differentiation strategy</th>
<th>Low-cost strategy</th>
<th>Focusing strategy</th>
<th>Between-groups</th>
<th>Between-groups</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic thinking</td>
<td>6.77&lt;sup&gt;a&lt;/sup&gt;</td>
<td>6.53&lt;sup&gt;b&lt;/sup&gt;</td>
<td>6.63&lt;sup&gt;a&lt;/sup&gt;</td>
<td>3.32</td>
<td>0.43</td>
</tr>
<tr>
<td>Administrative</td>
<td>3.20&lt;sup&gt;b&lt;/sup&gt;</td>
<td>5.91&lt;sup&gt;a&lt;/sup&gt;</td>
<td>3.71&lt;sup&gt;b&lt;/sup&gt;</td>
<td>12.49</td>
<td>&lt;. 0001</td>
</tr>
<tr>
<td>Leadership</td>
<td>6.57&lt;sup&gt;a&lt;/sup&gt;</td>
<td>6.38&lt;sup&gt;b&lt;/sup&gt;</td>
<td>6.25&lt;sup&gt;b&lt;/sup&gt;</td>
<td>15.56</td>
<td>.0001</td>
</tr>
<tr>
<td>Interpersonal</td>
<td>2.05&lt;sup&gt;b&lt;/sup&gt;</td>
<td>2.47&lt;sup&gt;b&lt;/sup&gt;</td>
<td>5.61&lt;sup&gt;a&lt;/sup&gt;</td>
<td>55.71</td>
<td>&lt;. 0001</td>
</tr>
</tbody>
</table>
Three competencies: strategic thinking, leadership and organizational knowledge were rated significantly higher by firms practicing the differentiation strategy; these competencies were of equal importance to the low-cost and the focusing firms. There were however statistically significant differences between the ratings of the low-cost and the focusers on the leadership competence. These results show the importance of a firm’s competencies in achieving certain competitive strategies. The findings are in congruent with those of Haanes and Fjeldstad (2000) argued that there are different ways of competing and, consequently different type of competencies support each way of competing.

Conclusions

From these results, it could be concluded that firms view and use their competencies differently; the appropriateness of particular managerial competencies depend on contextual conditions, including the sector of operation and the firm’s strategies. The differences in the emphases on competencies may be one of the major factors in smaller firms’ competitiveness; it appears that competencies are intangible inputs that possess ownership and value and can be used to create comparative advantages and become the basis of a competitive advantage. They partly dictate the primary functions and/or activities of a firm and influence the choices of competitive strategies. However, low competency scores by some sectors on certain competencies may be a signal of gaps in the perception of the importance of those competencies.

It can also be concluded that there are two sets of important competencies among the exporting SMEs: core and sector-specific competencies, and that sector specific competencies most probably function fully if supported by the core competencies. This leads to a further conclusion that firms display managerial and structural consistency when faced with similar competitive conditions. Firms seemed to utilize a variety of competencies and they also exhibited intermediate behaviors or what may be referred to as strategic flexibility. Awareness of these relationships is invaluable for interpreting and ultimately effecting change in the managerial behaviors of SMEs. More specifically, identifying these linkages can serve as an impetus for guiding firms on the best way to develop certain competencies.

The analysis also seemed to imply that focusing on a single set of competencies may be misleading, as competitive strategies may be created by complex interrelations among several

<table>
<thead>
<tr>
<th>Competencies</th>
<th>Differentiation strategy</th>
<th>Low-cost strategy</th>
<th>Focusing strategy</th>
<th>Between-groups</th>
<th>Between-groups</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communication</td>
<td>6.01&lt;sup&gt;a&lt;/sup&gt;</td>
<td>3.82&lt;sup&gt;b&lt;/sup&gt;</td>
<td>3.95&lt;sup&gt;b&lt;/sup&gt;</td>
<td>49.06</td>
<td>&lt;.0001</td>
</tr>
<tr>
<td>Motivation</td>
<td>4.72&lt;sup&gt;a&lt;/sup&gt;</td>
<td>5.02&lt;sup&gt;a&lt;/sup&gt;</td>
<td>5.10&lt;sup&gt;a&lt;/sup&gt;</td>
<td>2.58</td>
<td>.084</td>
</tr>
<tr>
<td>Self-management</td>
<td>2.63&lt;sup&gt;b&lt;/sup&gt;</td>
<td>2.71&lt;sup&gt;b&lt;/sup&gt;</td>
<td>5.86&lt;sup&gt;a&lt;/sup&gt;</td>
<td>55.71</td>
<td>&lt;.0001</td>
</tr>
<tr>
<td>Org. Knowledge</td>
<td>6.85&lt;sup&gt;a&lt;/sup&gt;</td>
<td>6.55&lt;sup&gt;b&lt;/sup&gt;</td>
<td>6.60&lt;sup&gt;b&lt;/sup&gt;</td>
<td>7.72</td>
<td>.0011</td>
</tr>
</tbody>
</table>

Note. Means superscripted with the same letter are not statistically significant at p<.05.
competencies and other firm factors. For a firm to remain internationally competitive internal competencies need to be increased continuously through a competency building process; increased competitiveness might require a culture that is open to learning and change.

A further, conclusion is that managerial competency of the owner manager is virtually synonymous with the notion of organizational competence. A manager in the SMEs context has a critical role of implementing and sustaining a firm’s strategy and that competencies do play critical roles in this process. Firms in the same sector tended to respond in a similar manner to a given competitive context, thereby showing low levels of innovation.

**Recommendations**

This study concluded that the importance and appropriateness of competencies are likely to be context-dependent. However, further research needs to be conducted on the directionality or the causality that seems apparent among competencies, strategies and the sector of operation. It is not clear whether the competencies of managers determine the sector of operation and the vice versa.

Managers, consultants, human resources development (HRD) educators need a greater understanding of the phenomena of competency in the small firm context in order to facilitate the process of management development among smaller firms. This has a further implication for the professionals and practitioners to systematically put into consideration the core competencies, the sector-specific competencies and probably firm- level -unique competencies as they plan for appropriate and related interventions for firms. The role of the entrepreneurs in shaping the core competence of an entrepreneurial venture through participative knowledge sharing needs to be identified and studied.

It is also important for practitioners and managers of SMEs to first and foremost realize the importance of differences among firms and exploit those differences in assisting firms toward the much-desired goal of becoming uniquely competitive. This might minimize the tendency of SMEs to produce duplicative product/services, which reduces their overall competitiveness.

It appears that competencies have important roles in the SMEs’ context and competitive performance; it would however be insightful to examine in detail the distinct roles they play in strategy formulation and implementation and firm competitiveness. Further in-depth studies are therefore required to gain a complete understanding of competencies in the smaller firm context. Such studies may also focus on the relationships among competencies, firm strategy and firm performance. A study of this nature may lead to positive and meaningful interventions.
References


