

## **Strategic Capabilities as Determinants of Firm Performance in Women-Owned Entrepreneurial Ventures in Nairobi, Kenya**

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### **Abstract**

*Strategic capabilities are complex bundles of skills and accumulated knowledge that enables firms to coordinate activities and make use of their resources to create economic value and achieve and maintain better performance. This paper examines the relationship between strategic capabilities and firm performance in women owned enterprises. The conceptual model was drawn from the resource based view theory, the dynamic capability framework and the social role theory. The study hypothesized that strategic capabilities, operationalized as; marketing capabilities, market-linking capabilities, technology capabilities, information technology capabilities and management capabilities are positively related to performance. The study used explanatory research design. A sample of 450 women was selected using multistage cluster and systematic sampling techniques. Data was collected using structured questionnaires and analysed using multiple regression and epsilon analysis. The study revealed that strategic capabilities have a significant effect on the overall performance. Further IT capabilities and Technological capabilities had a positive and the most significant effect on performance. The study therefore recommends that women entrepreneurs build their strategic capabilities. Specifically they need to build their IT and technology capabilities as these strongly influence the performance of their businesses. This they could do through acquisition of relevant technologies that would improve their businesses and using IT for market knowledge creation. Women are also encouraged to join associations to enable them not only build their capabilities but also be exposed to new ideas and new technologies the capacity of women entrepreneurs be enhanced to ensure that they are able to build on their capabilities particularly technological capabilities. Policy makers should initiate programmes for entrepreneurship developments that are more focused on building strategic capabilities of women entrepreneurs.*

**Key Words:** Strategic, Capabilities, Entrepreneurship, Firm, Performance

### **INTRODUCTION**

A lot of research on women entrepreneurship has mainly focused on individual characteristics and gender-specific barriers to entrepreneurship as predictors of firm performance (Catley & Hamilton, 1997). These studies have focused on the characteristics, motivations for starting business, and challenges for women entrepreneurs. Relatively few studies have focused on the strategy and structure of women owned enterprises (Brush, 1992). Mukhtar (2002) notes that gender related

research on the whole has not been able to keep pace with changes in the small firms sector especially in terms of studying management characteristics, structures and strategies employed by women business owners.

Additionally, Carter and Allen (1997) in their study on size determinants of women-owned businesses, note that women should not be considered as a homogenous group. Stevenson (1990) supports this view and notes that as women entrepreneurs are not a homogenous group; efforts should be made to develop typologies that take into consideration their diversity. Women entrepreneurs may have different access to resources and capabilities that influences their firm performance.

This paper therefore attempts to fill this gap by extending the research on women entrepreneurs beyond the examination of the link between gender and entrepreneurial characteristics. Gundry and Welsh (2007) note that there is need to focus not only on gender based differences relating to the entrepreneurial experience but also focus on understanding the women entrepreneurs whose businesses may be differentiated by size, industry, strategic intent and firm performance.

### **Firm Performance**

The performance of women owned businesses has become an important area of concern for policy makers and a subject for much academic debate. The concern has been the underperformance of women owned businesses. Studies have revealed that women owned firms are more likely to close and have lower levels of sales, profits and employment (Kallenburg & Leicht, 1991; Rosa *et al.*, 1996). Relatively very little is known about why the women owned firms underperform (Fairlie & Robb, 2009). Previous studies on differences in firm performance by gender found that financial capital, education and work experience may be important factors. Another view from research is that women access different business and investment social networks from men, which could affect their outcomes (Brush *et al.*, 2004).

To identify the underlying causes of this phenomenon, this study explored the determinants of firm performance in women owned entrepreneurial ventures from a strategic management perspective. In the recent years, the Resource Based View has emerged as a popular perspective for explaining performance (Newbert, 2007). Relying on the traditional strategic management construct of distinctive competence (Andrews, 1987; Hofer & Schendel, 1978) the RBV suggests that the relative performance of a firm is rooted in the firms' strategic resources (Barney, 1991).

Every organization possesses its own capabilities that enable it to perform the activities necessary to produce its products and services. More successful firms conceivably have capabilities that help them perform their activities better. These capabilities have been termed distinctive competencies or strategic capabilities and generally refer to the unique skills and activities that a firm can do better than rival firms (Selznick, 1957; Lado, Boyd & Wright, 1992). In this study therefore, Strategic capabilities are defined as —complex bundles of skills and accumulated knowledge that enables firms to coordinate activities and make use of their resources (Day, 1990, p. 38) to create economic value and achieve and maintain better performance

(Desarbo *et al.*, 2005, p. 49). Research has shown that strategic capabilities are critical to the success of a business. It is posited in this study that the strategic capabilities of women owned entrepreneurial ventures could explain firm performance.

### **Strategic Capabilities and Firm Performance**

Desarbo *et al.* (2005) have identified the dimensions of strategic capabilities in firms as marketing capabilities, market-sensing capabilities, technology capabilities, information technology capabilities and management capabilities. They suggest that technological capabilities are capabilities concerned with the production of goods: logistics that allow the firm to either differentiate its product or keep costs down. Market sensing capabilities are concerned with customers and channels, and connecting to the changing customer needs that are sensing market trends. Marketing capabilities include skills in segmentation, and target-pricing advertising that enable the firm to implement effective marketing programmes. Information technology capabilities are those that help the firm diffuse market information effectively across all relevant functional areas. Management capabilities are those that support all the other capabilities including human resource management, financial management and others.

These are the categories of capabilities that are common to many organizations and that have been identified and used in prior research (Day, 1994; Desarbo *et al.*, 2005; Song *et al.*, 2008). All organizations may not have these capabilities (Day & Nedungandi, 1994; Day & Wensley, 1988; Song *et al.*, 2008) but how organizations develop these capabilities within their businesses would explain the differentials in performance.

### **Strategic capabilities in Women Owned Entrepreneurial Ventures and Firm Performance**

Loscocco and Robbinson (1991) found in their analyses that women owned businesses are concentrated in traditional female-typed fields, retail trade and service sector with men concentrating in the manufacturing, construction and high technology fields. Cjeka and Eagly (1999) attribute these to gender stereotyping. In their study, they examined the role of gender stereotypes and found that to the extent that occupations were female dominated, feminine personality or physical attributes were thought more essential for success and women would be expected to do well; to the extent that occupations were male dominated, masculine personality or physical attributes were thought more essential and it was expected that men would do well in these fields.

In the context of this study therefore, where a particular sector of industry required feminine personality, feminine physical and cognitive attributes such as affectionate, nurturing, cooperative, imaginative artistic among others, then it was expected that a woman entrepreneur would perform better because of the gender industry fit. This is because it is posited that the gender–industry fit would enable the inherent capabilities in the owner of the venture to be used effectively to accomplish the tasks at hand.

From this Social theory perspective, the dimensions of strategic capabilities of women owned entrepreneurial ventures are outlined and discussed hereunder.

### **Market- Linking Capabilities and Firm Performance**

Market linking capabilities refer to focused market sensing and linking outside the organization (Desarbo *et al.*, 2005). Many scholars have noted that the ability of a firm to sense and seize market opportunities and to readjust their resources accordingly have significant effects on performance (Day, 2000; Eisenhardt & Martin 2000; Teece, Pisano & Shuen, 1997; Zahra, Sapienza & Davidsson, 2006; Zott, 2003). The main idea of this capability is to develop market intelligence pertaining to what the needs of customers currently are, what they may need in the future, dissemination of this information within the organization and being responsive to it (Kohli, Jaworski& Kumar, 1993). Reijonen and Kompula (2010) in their study of SMEs in Finland found that customer orientation and market intelligence were important success factors in the performance of SMEs. The capability to link with customers has been associated with the female gender. Women are nurturers and good communicators and therefore are expected to have strong market linking capabilities.

### **Technological Capabilities and Firm Performance**

Technology refers to physical resources including plant, machinery, equipment and tools that are possessed by the firm (Grant, 1995). Porter (1985) notes that technology can impact firm performance. It has an important role in determining a firm's relative cost position or success in differentiation. Technology can affect several value-creating activities in the firm. Technological capability is the ability to use the technological resources to create value. A technological capability has been defined as —the ability to perform any relevant technical function or volume activity within the firm including the ability to develop new products and processes and to operate facilities effectively (Teece *et al.*, 1997, p. 521).

Technological capability in as much as it is important in all types of businesses, has greater relevance in the manufacturing sector, as this sector is more involved in the production of goods. Women traditionally are not found in the manufacturing sector nor are they perceived to be good in technology. It is perceived that the manufacturing sector and the related needed capability to manage such a venture is more suited to the male gender role than female. Most of women are associated with the service industry.

### **Marketing Capabilities and Firm Performance**

Marketing capabilities include skills in segmenting and targeting markets, in advertising and pricing and in integrating marketing activities (Day, 1990; Desarbo *et al.*, 2000; Song *et al.*, 2008). Marketing activities would include market planning, revenue forecasting, and allocation of resources and control of marketing activities. The idea is to enable the organization to communicate its products' unique advantages so as to attain customer satisfaction and loyalty, which will ultimately improve competitiveness.

Studies on the marketing practices of small businesses especially women owned enterprises have been few. One study by Blankson and Omar (2002) found that in most firms exists a patchy market orientation framework characterized by informal marketing deliberations (Mankelow & Merrilees, 2001). They note that in small businesses, marketing activities are informal and unplanned and rely on intuition and energy of the entrepreneur. Another study by Van Auken *et al.* (1994) did an empirical analysis of advertising by 121 women owned enterprises and found that women entrepreneurs tended to greatly use referrals, community events, telephone directory and fliers than a general sample of small business owners. They attributed this to differences in women's communication style and the value women place on personal forms of communication.

### **Information Technology Capabilities and Firm Performance**

Information technology (IT) is a term that encompasses all forms of technology used to create, store, exchange and utilize information in its various forms including business data. IT capabilities facilitate internal communication and cross-functional integration in firms (Song *et al.*, 2008). A firm with better IT capabilities performs better and has greater organizational success (Nuevo & Wade, 2010). This is so especially if IT is used creatively to deliver superior value to the customer (Peltier, Schibrowsky & Zhao, 2009).

Studies have shown that using IT creatively enhances performance and also ensures better cross functional transmission leading to more successful new products and generally improved competitiveness (Song *et al.*, 2008; Bharadwaj, 2000; Bharadwaj & Konsynski, 1999; Dehning & Stratopoulos, 2003). This is much more important for small businesses that must be efficient with their limited resources.

Celuch and Murphy (2010) in their study found that small businesses could improve their strategic flexibility through the use of Internet that facilitates communication and also through aligning IT to the firms' market orientation. The Internet has the market-sensing capability that can help a firm manage customer and competitor's information and also manage internal activities thus enabling better performance. Other businesses are able to use a wider range of IT to support both the communication and computerization of aspects of their business, for example, using data software to track and stock their inventory, and by implication their past and projected income (Tandon, 2002).

Since this capability has both the communication aspect that is perceived to fit the female gender role and the technical bit that fits with the male gender role, it is expected that the effect of IT capabilities on firm performance in women owned business would not be great.

### **Management Capabilities and Firm Performance**

Management in all business areas and human organization activity is the act of getting people together to accomplish desired goals and objectives. Management involves planning, organizing, staffing, leading or directing, and controlling an organization for

the purpose of accomplishing a goal. It requires the ability to develop programs, prepare budgets, evaluate performance and perform the tasks necessary to implement the firms' strategy (Chandler & Jensen 1992). Management capability involves competence in three areas; ability to coordinate all the firms' activities, ability to work, understand and motivate people, and the ability to build a power base and establish the right connections (Chandler & Jensen, 1992). Managerial capabilities as outlined by Desarbo et al., (2005) include the ability to integrate logistic systems, control costs, manage financial and human resources, forecast revenues and manage market planning.

Women use relational management styles whereas men use transactional management styles (Buttner, 2001; Idris, 2009). The relational dimension of their style of management is associated with the transformational leadership style that includes collaboration, mutual empowerment, sharing of information, nurturing and empowerment in the management of the business (Eagly, 2007; Podsakoff *et al.*, 1990). These characteristics are different from men and has been demonstrated that they significantly are more beneficial to long-term business success (Heffernan, 2003). The women's social ability and empathy imply a better performance of business created by and run by women because of their ability to communicate better with employees, suppliers and customers (Valencia, 2006). Transformational leadership style has been associated with effectiveness.

Women entrepreneurs generally have been found to make decisions not based on planning. Mukhtar (2002) notes that, women entrepreneurs rely on intuition not only when making key decisions within their businesses but also in the manner in which they structure and run their businesses. This can be a hindrance to their management success. Powell and Ansic (1997) also found that women adopt different strategies in financial decision environment and that they have a lower preference for risk. This low risk propensity affects their decision-making process for example accessing financial resources through taking loans. It has been found that women who have access to financial resources and have good relationship with their banks tend to perform better. Most women would be afraid, because of their low risk propensity, to take up loans. It can be said therefore, that women entrepreneurs who are able to develop strong managerial capabilities that takes advantage of their characteristics associated with their gender while minimizing the negative effects will tend to perform better than those without.

From the above discussions it was postulated in this study that there would be significant differences in the extent to which the specific strategic capabilities influence firm performance in women-owned entrepreneurial ventures. And that these differences, as explained by the social role theory, are perceived to be influenced by the gender stereotyping such that the capabilities that are associated with the female gender role would have greater effect on performance than those associated with the male gender role.

## **MATERIALS AND METHODS**

### **Study Area**

The study targeted Kenyan women entrepreneurs in Nairobi, Kenya. The study focused on the formal segment of women entrepreneurs, that is, women who owned formally registered businesses within Nairobi. Women-owned enterprises were defined as businesses owned solely by women or where the woman held at least over 50% of the ownership (Carter & Shaw, 2006). Data was collected from women owned enterprises within Nairobi. Nairobi is the capital city of Kenya, with a representative sample of Kenyan citizens. This city was chosen as it had the most representations of urban entrepreneurs who were the target population.

### **Data Collection**

To get a representative sample, multi-stage cluster sampling was used. The target sample was the women owned entrepreneurial ventures in Nairobi. In the first stage, the existing administrative divisions of Nairobi city formed the sampling frame. After numbering the divisions, five divisions were selected using simple random sampling. Since each woman owned entrepreneurial venture is located in a division, each had an equal chance of being selected for the final sample. The divisions selected from this exercise included Embakasi, Central, Dagoretti, Kibera, and Makadara.

In the second stage, the locations within these divisions were considered as the next sampling frame. All the locations within these divisions were considered. From these locations another sampling frame was generated based on the formally registered businesses operating in these locations. The actual women owned entrepreneurial ventures were then selected using systematic sampling method. Being an explanatory study by design and exploratory study by nature in so far as finding out strategic capabilities of women entrepreneurs in Kenya, the aim was to get a representation of women entrepreneurs in Nairobi. Hence, 100 women from each of the divisions selected were targeted, to achieve a sample size of 500 respondents.

The study utilized both primary and secondary data. Primary data was collected from the women entrepreneurs through the structured questionnaire. Secondary data was obtained through review of published and unpublished materials such as journals, theses and government documents in libraries and Internet. Data sought from the secondary materials included existing information on strategic capabilities and performance of women owned entrepreneurial ventures.

### **Data Analysis**

Data was analyzed using descriptive and inferential statistics. Descriptive statistics for all study variables through univariate and frequency procedures was conducted. Simple bivariate correlation was computed to ensure that all study relationships were in the expected direction. Also, the Pearson product-moment correlations was examined to determine the extent of correlation between the independent and dependent variables, and to assess the potential of multi co linearity. Multiple

regression analysis was used to test hypotheses. Specifically, the market-linking capabilities, technological capabilities, marketing capabilities, information technological capabilities and managerial capabilities were tested independently to determine if they were unique predictors of strategic capabilities.

To test the relative importance of the strategic capabilities in predicting performance epsilon, analysis, which is a more recent method, was suggested (LeBretton & Tonidandel, 2008). This method uses the relative weights of the specific predictors to measure relative importance.

## RESULTS AND DISCUSSIONS/FINDINGS

### Performance of Women Owned Entrepreneurial Ventures

The study sought information on firm performance over the last 12 months using return on investments, sales growth, market share, and profit to sales ratio and over all firm performance. Descriptive measure of central tendency and dispersion were used to summarize the responses as tabulated in Table 1.

Table 1. Performance of women owned entrepreneurial ventures

Firm Performance	Mean	Std. Deviation
Return on investments	6.35	1.775
Sales growth	5.84	1.895
Market share	5.65	1.943
Profit to sales ratio	5.86	2.047
Overall financial performance	6.33	1.873

**Source:** Survey Data, 2010

The findings indicate that on average (mean= 6), the respondents said that their enterprises had 41-50% growth on sales, market share, profit to sales ratio and overall performance in the last 12 months. In addition, a significant number of respondents said that their firms had 51-60% growth on return on investments in the last 12 months.

### Multiple Regression Analysis

To ascertain whether or not capabilities have a significant effect on firm performance in women owned entrepreneurial ventures, multiple regression analysis was carried out and the results are as summarized in Table 2.

Table 2. Regression models

Variables	Model 1		Model 2
Constant	55.584	(2.011)	27.69 (3.862)
<b>Control Variables</b>			
Firm Age	.024	(.118)	.025(.425)
Firm Size	.186	(.523)**	.065 (.098)**
<b>Independent Variables</b>			

IT Capabilities		.308 (.396)*
Technological Capabilities		.25(.349)*
Management Capabilities		.056 (.596)
Marketing Capabilities		.145 (.435)*
Market-linking Capabilities		.017 (.371)
F statistics	8.664	40.35
R <sup>2</sup>	.037	.39
Adjusted R <sup>2</sup>	.033	.38

\*P<. 05 \*\*P<. 1 (2 tailed test)

Values of beta regression coefficients, with standard errors in Parenthesis

Source: Survey Data, 2010

From the results shown in Table 2, Model 1 shows that control variables firm size and firm age have an R<sup>2</sup> of .037 and an adjusted R<sup>2</sup> of .03 which implies that the control variables explain 3.3 % variations in overall performance. Model 2, the full model, shows a goodness of fit as indicated by the coefficient of determination (R<sup>2</sup>) with a value of .39 and adjusted R<sup>2</sup> of .38.

This implies that the independent variables marketing capabilities, market linking capabilities, management capabilities, technological capabilities and IT capabilities explains 38% of the variations of overall performance. The F value of 40.35 indicates that the overall regression model is significant and has some explanatory value. In support of the expectations of the study, the findings indicate that strategic capabilities of women owned entrepreneurial ventures had a significant influence on firm performance. In the context of the study, therefore, the differentials in performance of women owned entrepreneurial ventures could be explained by the strategic capabilities that they have.

Additionally, on the specific strategic capabilities, Technological capabilities were found to have a significant effect on firm performance. This finding is similar to a study on internal capabilities and performance by Lee *et al.* (2001) that found that technological capabilities are important predictors of firm performance. It can be proposed then that women entrepreneurs need to build their technological capabilities, as they are strong predictors of performance. One of the main challenges for women has been the access to credit to purchase the relevant technologies (Odero-Wanga *et al.*, 2009). Those who can access credit facilities lack the necessary training to translate the resources into core competence that can give them added advantage. For example, using computers not only to manage documents and keep records but also as a tool to enhance their business. Through the computer they could set up websites to not only advertise their businesses, but also source for customers.

It was further found that marketing capabilities do have a significant effect on firm performance. Women have been known to have poor marketing skills. A study by Odero-Wanga *et al.* (2009) found that one of the main constraints facing women in the dairy sector in Kenya was lack of marketing skills, which greatly hampered their performance. Other studies have found that in most firms exists a patchy market orientation framework characterized by informal marketing deliberations (Blankson & Omar, 2002; Van Auden *et al.*, 1994). Van Auken *et al.* (1994) also note that women

entrepreneurs tended to use the same advertising methods they used as they started their businesses through the continuing years. This is attributed to limited advertising budgets that constrain them from trying other advertising methods.

In addition, it was found that information technological capabilities have significant effect on firm performance. In support of this finding are studies that have shown that using IT creatively enhances performance and also ensures better cross functional transmission leading to more successful new products and generally improved competitiveness (Song *et al.*, 2008; Bharadwaj, 2000; Bharadwaj & Konsynski, 1999; Dehning & Stratopoulos, 2003). In developing economies, Kenya especially, the increase use of mobile telephony in small business has been noted. Mbogo (2010), in a study of the impact of mobile phone payment on the success and growth of micro business, has found that micro businesses enterprises in Kenya are increasingly using the mobile technology to facilitate communication and support transactions in their businesses. The entrepreneurs are able to transact payments directly with their customers and suppliers through a mobile phone in the palm of their hands without necessarily leaving their business premises or going through a bank. This saves them a lot of time and money in terms of transportation costs. For women entrepreneurs this provides convenience and flexibility as they manage multiple roles in the family set up and as they run their businesses.

This finding is also in line with Komunte *et al.* (2012) on the use of mobile technology for business transactions by women entrepreneurs in Kenya. It was observed that women enterprises that invested in and used mobile services generated high revenues. This increase in revenues was as a result of reduced transaction costs, reduced transportation cost, and increased communication with customers that assisted women entrepreneurs to bring in customers or suppliers into the transaction chain among others. Management capabilities and market linking capabilities though having a positive effect were not significant.

### **Epsilon Analysis**

To test the relative importance of the strategic capabilities the study carried out an epsilon analysis. As mentioned this is a preferred statistic for computing relative importance (Johnson & LeBretton, 2004). In this analysis, the estimates derived from the epsilon, often labelled relative weights, sum to the model  $R^2$ . Thus the relative weights represent the proportionate contribution each predictor makes to the  $R^2$ , considering the predictor's direct effects and its effect when combined with other predictors. Researchers can also calculate the percentage of  $R^2$  explained each predictor by dividing the relative weight of each predictor by dividing the relative weight by the total  $R^2$ .

The results from this analysis as indicated in Table 3 show that the most important strategic capabilities are the information technology capabilities and technological capabilities that account for approximately 36% and 31% of the total explained  $R^2$  respectively. This is followed by Marketing Capabilities explaining 17% and Management Capabilities explaining 14% of the total explained  $R^2$ . It is noted that market-linking capabilities explains only 2% of the total explained  $R^2$ .

Table 3. Relative importance of strategic capabilities in predicting performance

Strategic capabilities	Raw Relative weights	Relative Weight as %R <sup>2</sup>
Marketing Capabilities	.066	17.2%
Market Linking Capabilities	.006	1.6%
Management Capabilities	.055	14.4%
Technological Capabilities	.120	31.1%
Information Technology Capabilities	.137	35.7%
Total R <sup>2</sup>	.358	100.0%

**Source:** Survey Data (2010)

This is an interesting finding because the first three capabilities that have the greatest influence are the ones according to the social role theory more associated with the male gender. In the sense that information technology capabilities, technological capabilities and marketing capabilities are more associated with the male gender stereotype. The market linking capabilities that are associated with the female gender role as implied by the social role theory is the least important in explaining the total R. This could possibly explain why women owned enterprises do not perform well. The capabilities associated with the female sex as postulated by the social role theory do not have a great influence on firm performance.

### CONCLUSION AND RECOMMENDATIONS

Results indicate that strategic capabilities do influence performance. It is therefore recommended that the capacity of women entrepreneurs be enhanced to ensure that they are able to build on their capabilities particularly information technology and technological capabilities. This calls for targeted training and development. Often organizations that carry out capacity building intervention programs for women entrepreneurs design training and development programs that are too general in scope. It may be important to target much more specifically on the development of competencies that can build on capabilities that could provide competitive advantage (Johnson, Scholes & Whittington, 2006). Specifically they need to build their IT and technology capabilities as these strongly influence the performance of their businesses. This they could do through acquisition of relevant technologies that would improve their businesses and using IT for market knowledge creation. Women are also encouraged to join associations to enable them not only build their capabilities but also be exposed to new ideas and new technologies the capacity of women entrepreneurs be enhanced to ensure that they are able to build on their capabilities particularly technological capabilities. Policy makers should initiate programmes for entrepreneurship developments that are more focused on building strategic capabilities of women entrepreneurs.

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### **BIO-DATA**

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