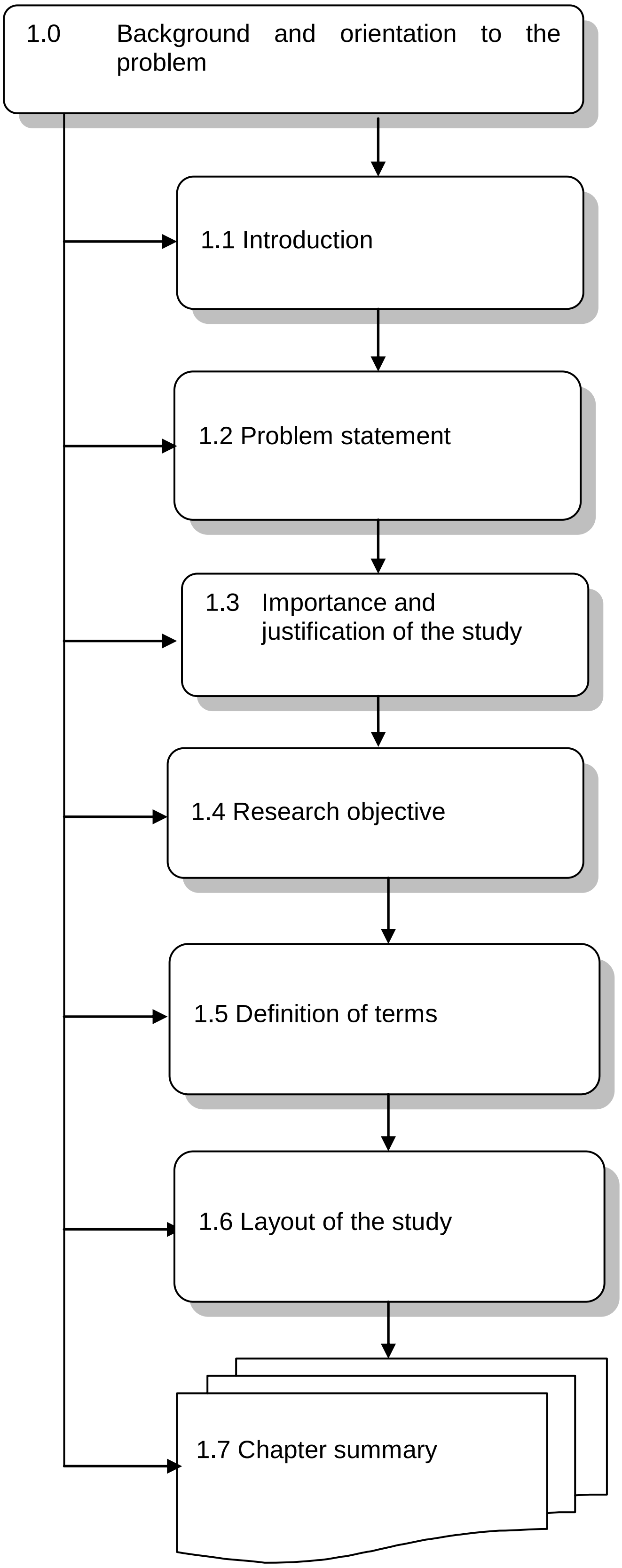
CHAPTER LAYOUT – CHAPTER ONE



CHAPTER ONE

1 BACKGROUND AND ORIENTATION OF THE PROBLEM

1.1 INTRODUCTION

The lowering or removal of trade barriers has increased internationalization of markets for sales and purchasing, and subsequently enhancing the entry of new competitors into formerly protected domestic markets (Hitt, Hoskisson & Ireland, 2007:7; Hitt & Reed, 2000:27). These dynamics have created huge pressure on SMEs due to regular changes in customers' taste and preferences, which influences purchasing behaviour. In this regards, involvement of SME in the open market is not a matter of choice, it is a question of struggle for survival, regardless of whether SME operate in global or local markets.

It is undisputable truth that SMEs face enormous pressure of competition. It is no longer possible to act in the marketplace without taking into account the risks and opportunities presented by foreign and/or global competition (Hitt *et al.,* 2007:7). A number of studies indicate that SMEs continue losing customers as a result of steep competition, posed by competitors (Ellis & Mdoe, 2003:1378; Kristiansen, Kimeme, Mbwambo, & Wahid, 2005:368). This implies that among other reasons, SME's are not competitive enough to face challenges posed by market rivals. In order to penetrate new markets and enhance competitiveness in local markets, enterprise performance remains a crucial factor for the survival of SME's in the competitive market environment. The literature identified strategic entrepreneurship as an appropriate strategic orientation to attain superior performance and wealth creation (Hitt, Ireland, Camp, & Sexton, 2002:2; Ireland & Webb, 2009:469).

According to Ireland and Webb (2007b:59) and Kuratko and Audretsch (2009:2) strategic entrepreneurship is the intersection of entrepreneurship and strategic management that foster simultaneously opportunity seeking and advantage seeking behaviours aimed at continuously exploring and exploiting opportunities while sustaining competitive advantage for the future. Ireland, Hitt and Sirmon (2003a:967) developed a model of strategic entrepreneurship that integrates a resource based view of firm, human capital, social capital, organizational learning, and creative recognition perspectives. The model has six building blocks that lead to a firm's competitive advantage which subsequently create wealth. The identified building blocks are entrepreneurial mindset, entrepreneurial culture, and entrepreneurial leadership, managing resources strategically, applying creativity and developing innovation. This implies that in a dynamic and competitive environment characterized by uncertainties, firms of all sizes use entrepreneurial mindsets for their advantage (McGrath & MacMillan, 2000:1; Kuratko & Audretsch, 2009:1), coupled with the entrepreneurial culture and leadership, firms are able to manage resources strategically of which through applying creativity and developing innovation firms develop competitive advantage that leads to performance.

While there is consensus among scholars on appropriateness of strategic entrepreneurship on firms attaining competitive advantage and subsequently create wealth, the challenge is how to simultaneously combine opportunity seeking and advantage seeking behaviours (Ireland & Webb, 2007b:55). In the light of this argument, the proposed theoretical conceptual model of strategic entrepreneurship is debatable on whether the proposed constructs are adequate to foster simultaneous opportunity and advantage-seeking behaviours that enhance sustainable competitive advantage of small firms. Schindehutte and Morris (2009:242) supporting this argument suggest that "strategic entrepreneurship is more than intersection of strategic management and entrepreneurship and treat this fusion as a contested idea and not settled issue". This argument presents conceptual gaps of strategic entrepreneurship and opens up more opportunities for further research to select and test more constructs that explain a causal–effect relationship in the domain of strategic entrepreneurship. In view of this argument, Monsen and Boss (2009:74) suggest that entrepreneurial orientation is more relevant and well placed to replace dimension of applying creativity and developing innovation in the model of strategic entrepreneurship.

However, the implied entrepreneurial orientation is based on Miller's (1983:771) conceptualization that has only three dimensions namely innovation, risk taking, and pro-activeness. According to Lumpkin and Dess (1996:139) entrepreneurial orientation has five dimensions namely innovation, risk taking, pro-activeness, autonomy, and competitive aggressiveness. In this view, the initial conceptualization of entrepreneurial orientation in the model of strategic entrepreneurship did not cover the full spectrum of the entrepreneurial orientation construct. It fell short of two dimensions namely autonomy and competitive aggressiveness, of which this study intends to fill the gap by capturing the five dimensions of entrepreneurial orientation.

Central to strategic entrepreneurship is the opportunity seeking behaviour and advantage seeking behavior (Ireland, Hitt. & Sirmon, 2003a:963; Ketchen, Ireland, & Snow, 2007:371; Ireland & Webb, 2009a:469). Opportunity seeking behaviour is a tendency of identification and or creation of entrepreneurial opportunities. Advantage seeking behaviour is a tendency of sustaining competitive advantage through continuous exploitation of opportunities (Morris *et al.,* 2008:81; Ireland & Webb, 2007b:50). For the opportunity, being gap left in the market by those currently operating in it (Wickham, 2006:434), to comprehend, it requires a system to monitor market dynamics, understand customers,' and competitors' behaviors, to identify unsaved market demands as well as prospects demands of consumers, based on their daily challenges. As such, this information provides a pool of opportunities that entrepreneurial oriented firms can use to respond accordingly in order to offer products and services aimed at filling the identified gap.

This study considers that to successfully address the challenges of simultaneous combining the opportunity seeking behaviours and advantage seeking behaviours, entrepreneurs in SMEs should consider adopting entrepreneurial strategies such as market orientation and entrepreneurial orientation to respond to challenges posed by the dynamics of global business environment. The market orientation in this case is suited to generate market intelligence aimed at responding to the customer's demands (Kohli & Jaworski, 1990:3) and fill market gaps left by current players/competitors. A sustained cultural behaviour of market orientation is likely to provide sustainable sources of opportunities oriented to customers' needs of which entrepreneurial oriented firms proactively respond to seize these opportunities to address current, future and latent needs of customers. The continuous identification of opportunities and successful exploitation of opportunities contribute to build competitive advantage of firm of which through competitive aggressive incumbent has to defend against the rivals (Lumpkin & Dess, 2001:446).

However, the literature on strategic entrepreneurship put more emphasis on strategic management and entrepreneurial posture (Ireland *et al.,* 2003a:966; Hitt, Ireland, Camp & Sexton*,* 2001:480; Ireland & Webb, 2007b:50) and underplayed the role that market orientation can contribute on opportunity seeking that subsequently account on competitive advantage that leads to firm's performance. This study considers it appropriate to include market orientation and entrepreneurial orientation to the model of strategic orientation to bridge the gap of simultaneous opportunity seeking and advantage seeking behaviours, which subsequently enhance a firm's performance.

While entrepreneurial strategies such as market orientation and entrepreneurial orientation have been studies in and reported to foster performance, several other studies have reported equivocal findings. For example, while some studies reported positive relationship between entrepreneurial orientation and firm performance (Keh, Nguye & Ng, 2007:605; Kraus, Fredrich, & Unger*,* 2005:335; Wiklund & Shepherd, 2005:85), other studies failed to find significant relationships or find only weak or partial relationships (Lumpkin & Dess, 2001:445; Walter, Auer & Ritter*,* 2006:557). A similar trend was revealed on the relationship between market orientation and firm performance. While several studies reported strong and positive relationship between market orientation and firm performance (Farrell, 2000:215; Harris & Ogbonna, 2001:163; Kara, Spillan & DeShields, 2005:112; Jaworski & Kohli, 1993:63; Langerak, 2003:109; Li, Zhao, Tan, & Liu, 2008:128; Li, Sun, & Liu, 2006:107; Narver & Slater, 1990:32), other studies failed to establish such a relationship (Diamantopoulos & Hart, 1993:115; Greenley, 1995:8; Han, Kim & Srivastava*,*1998:38; Harris, 2001:33; Langerak, Hultink, & Robben, 2004:88; Ngai & Ellis, 1998:132;). The inconsistence of the findings raised questions of whether the entrepreneurial orientation and market orientation alone are adequate to enhance firm performance and this call for further investigation to establish appropriate factors influencing SME performance before concluding that market orientation and entrepreneurial orientation alone are important in firm performance.

Upon further investigation, the nature of the test strategies mentioned above, it is clear that the implementation of these strategies requires reasonable investment of resources (Covin & Slevin, 1991:15). However, SMEs' are always constrained with resources (Kropp & Zolin, 2005:1; Verhees & Meulenberg, 2004:137) to carry out their day to day duties, which include the execution of strategies. This view is shared by Rutashobya and Jaensson (2004:161) that small firms lack financial resources, management and marketing skills, and market information to withstand competition in the fast changing environment. Moreover, Kristiansen (2004:379) point out that the main problems small-scale enterprises face in developing countries, are not their “small size or their informal mode of operation, but rather their isolation, the geographical as well as social segregation that hinders access to larger markets, information, financial resources and institutional support”.

Kristiansen and Mbwambo (2003:377) reported earlier in their study on the garment industry, that innovative entrepreneurs connected to information sources, perform better than colleagues who are without access to information and skills for adaptation to changes in consumer preferences and competitive environment. Since innovation and access to information require resources which are limited in SMEs (Kropp & Zolin, 2005:1; Verhees & Meulenberg, 2004:137), networking is considered appropriate to be included in this study with the view that it will provide a competitive advantage to small firms because of possibilities of resource sharing and learning among network partners that could enable them to execute the mentioned strategies and minimize the disadvantages mentioned above.

Networking is the mutual relationship that involves a firm with its customers, suppliers and competitors amongst others and often extends across industry, geographic, political and cultural boundaries (Hitt *et al.,* 2001:481). The relationship between networking and a firm’s performance was studied, but it reported inconsistence findings. For example, while George, Wood and Khan (2001:280) and Watson (2007:854) reported significant positive relationships, other scholars failed to find such relationships, or reported only weak or partial relationships (Aldrich & Rees, 1993:327; Cooper, Gimeo-Gascon & Woo, 1994:390; Havness & Senneseth, 2001:299). However, other scholars have suggested that networking often raise the possibility of losing strategic information and competence to partners consequently, some networking relationships may not be beneficial (Hitt *et al*., 2007:240; Kale, Sing, & Perlmutter, 2000:233; Semrau & Werner, 2012:160). In this view, this study argues that networking is likely to be beneficial if partners are capable to establish sustainable relationships that complement resources and capability needs.

According to Walter *et al.* (2006:541) such ability is the networking capability which is the ability to initiate, maintain, and utilize inter-organizational relationships with various external partners to enhance performance. In this regard, this study includes networking capability based on the relevance of the strategy to SME performance.

Critical review of the three strategies; market orientation, entrepreneurial orientation, and networking capability represent response posture to competitors and opportunities to foster simultaneous both opportunity seeking- and advantage seeking behaviours. Kohli and Jaworski (1990:3) presented the behavioural perspectives of the market orientation to refer "organizational-wide generation of market intelligence pertains to the current and future customer needs, dissemination of intelligence across department and organizational-wide responsiveness to the intelligence" in the process of searching for market opportunities. Narver and Slater (1990:21) presented the cultural perspective of the market orientation that is focused on customers, competitors, and inter-functional coordination which build an organizational culture that most effectively and efficiently creates behaviors for the creation of the superior value for buyers and thus continuous superior performance for the business rivals. In this context, this study suggest that the cultural and behavioural market orientation perspectives are geared to generate market intelligence that opens sets of potential opportunities of which entrepreneurial firms respond to exploit them.

Entrepreneurial orientation refers to methods, practices and decision making styles managers or business owners use to act entrepreneurially (Tang, Tang, Marino, Zhang & Li, 2008:234; Covin, Green, & Slevin, 2006:59). Such practices entails autonomy in making timely decisions that are crucial in competitive environment to cope with the speed of environmental change, innovation that involve doing things differently from existing businesses or service providers, risk taking in business undertakings, proactive in seizing opportunities and competitive aggressive towards rivals (Lumpkin & Des, 1996:139). Lumpkin and Dess (2001:430) pointed that pro-activeness is a response to opportunities and more appropriate in a dynamic environment or in growth stage of business industry where conditions are rapidly changing and opportunities for advancement are abundant. Consistently, it is argued that competitive aggressiveness involves response to existing competitive trends and demands, or response to competitor in the effort to defend or acquire competitive position. In such, one will say proactive behavior is a response to opportunities while competitive aggressiveness is a response to competitors' behaviours and demands, which imply that competitive aggressiveness is more suited in competitive environment.

With the understanding that SMEs are confronted by resource scarcity and both opportunity seeking and advantage seeking behaviours requires considerable amount of resources, this study considers that a firm with the ability to initiate and sustain beneficial networking relationships, are likely to benefit more than those who are not. Kale *et al.* (2000:221) pointed that networking capability has four dimensions namely coordination, relational skills, partners knowledge and internal communication. The relevance of networking capability in this study is to address the problem of resource scarcity among SMEs, which is a target of this study. It is considered that one way for a firm, with scarce resources to survive in a competitive environment should be its ability to develop robust networks to share resources with other firms or individuals (Hitt *et al.,* 2007:263) in order to withstand the competition posed by the rivals. In all cases, networking capability sustains the competitive advantage of a firm, by providing backstopping in terms of the resource needs and capabilities of a firm to move forward in order to foster opportunity seeking and advantage seeking through continuous identification and exploitation of opportunities.

Investigating market orientation, entrepreneurial orientation, and networking capability, it becomes clear that the focus is on a firm's response to opportunities, customers' and competitors' behaviours and other environmental dynamic factors to ensure a firm's performance. It is from this context; this study labeled the three strategies as the dimensions of the "strategic entrepreneurial response" and examines their relationship with SME's performance. While previous studies have examined the dimensions of strategic entrepreneurial response, such as market orientation, entrepreneurial orientation, and networking in relation to firm performance, this study replace networking with the networking capability and integrate the three dimensions of strategic entrepreneurial response and examines their interaction and impact on SME performance.

The reasons for integrating the three dimensions is based on the fact that in real life entrepreneurs use these strategies in combination depending more on circumstances and not in isolation as they used to be studied. According to the literature review the interaction of the three dimensions of the strategic entrepreneurial response and their relationship to SME performance have not been studied before and remain unclear (Li *et al*., 2008:114). The significance of this study contributes to the growing literature of strategic entrepreneurship on factors contributing to simultaneous opportunity seeking and advantage seeking behaviours that subsequently contributes to SME performance. The emphasis is placed on the individual and the interaction of the dimensions of strategic entrepreneurial response and their impact on SME performance. Understanding how SME's attain performance is timely, given the competitive environment posed by trade liberalization and globalization.

1.2 PROBLEM STATEMENT

Despite of consensus among scholars that strategic entrepreneurship is the intersection of strategic management and entrepreneurship that fosters opportunity seeking and advantage seeking behaviours, and is appropriate for firms addressing challenges posed by dynamic environments (Hitt *et al.,* 2002:2; Ireland *et al.,* 2003a:965). Ireland and Webb (2007b:55) and Ketchen *et al.* (2007:374) observed that firms face challenges to simultaneously combine opportunity seeking and advantage seeking behaviours. Supporting this argument, Schindehutte and Morris (2009) pointed that "strategic entrepreneurship is more than intersection of strategic management and entrepreneurship and treat this fusion as a contested idea and not settled issue".

While this study acknowledges efforts made by previous studies to address challenges confronting businesses in the dynamic and competitive environment, the conceptual gap in strategic entrepreneurship is one of the reasons compelled to carry out this study. Among reasons for the conceptual gap might be the constructs chosen by previous studies to explain strategic entrepreneurship may not be adequate to enhance simultaneous opportunity seeking and advantage seeking behaviours. This argument opens up more opportunities for further studies to examine more constructs that may explain how firm can attain simultaneous opportunity seeking behaviour and advantage seeking behaviour essential in the domain of strategic entrepreneurship.

In this view, this study argues that market orientation and entrepreneurial orientation are well placed to address the challenge of simultaneous opportunity seeking and advantage seeking behaviours that subsequently sustain SME performance. Market orientation is considered relevant to generate market intelligence which forms a source of opportunity of which it sets a context for the entrepreneurial oriented firm to exploit and create a competitive advantage. With the understanding that MO and EO requires resources to implement and SMEs are constrained with resources, this study considers including networking capability as a way in which resource constrained firms can access and complement resources and capabilities needs from networking partners.

However, previous studies on market orientation and entrepreneurial orientation in strategic entrepreneurship have reported mixed results with respect to their relationship and contribution to firms' performance. While some studies have reported a positive relationship, others have failed to find this relationship or found only weak or partial relationships. The equivocal results from previous studies limit generalization of findings and raises legitimate questions as follows:

- Is there any relationship between individual dimensions of SER and SME performance? If yes, does the composite dimensions of SER presents similar nature of relationship with SME performance?

- How much variance in SME performance is explained by scores of the composite dimensions of SER?

- Is there a relationship among the composite dimensions of SER? And whether the interactions of the composite dimensions of SER explain a significant amount of variance in SME performance?

- If the demographical variables such as the firm size, type of industry, and level of education of the owner/manager are controlled, is the three composite dimensions of SER namely market orientation, entrepreneurial orientation, and networking capability still able to explain a significant amount of variance in SME performance?

- Which predictor is able to explain higher amount of variance in SME performance? Or which is the best predictor to explain SME performance among the three composite dimensions of SER namely market orientation, entrepreneurial orientation, or networking capability?

These questions prompted this study to isolate appropriate factors enhancing simultaneous combining opportunity seeking and advantage seeking behaviours that foster competitive advantage and SME performance as a response to competition posed by environmental changes.

1.3 IMPORTANCE AND JUSTIFICATION OF THE STUDY

This research contributes to the entrepreneurship literature in a number of ways as mentioned below.

- Given the fact that there is a growing consensus among scholars on the relevance of strategic entrepreneurship to cope with the challenges posed by the dynamic environment, firms still face challenges of simultaneous combining opportunity-seeking and advantage-seeking behaviors to sustain firm's performance. This study introduces a concept of Strategic Entrepreneurial Response (SER) in entrepreneurship literature to explain how firms can simultaneously combine opportunity seeking and advantage seeking behaviours in order to attain a firm's performance.

- While equivocal results have been reported in previous studies on the direct relationship between dimensions of strategic entrepreneurial response and firm performance, this study responds to fill this gap by examining the relationship between dimensions of SER and SME performance and the amount of variance explained in SME performance bythe dimensions of SER.

- Based on the fact that when firms are confronted by environmental challenges, they are likely to respond by adopting different combinations of strategies and are not bound to a single strategy as they are previously studied. This study examines the interaction of dimensions of the SER and identifies the amount of variance explained in SME performance by the interaction of dimensions of SER.

- In view of the continuous increase of business environmental turbulence, this study identifies the best predictor of SME performance to cope with the environmental dynamics.

The findings of the research are useful for researchers, policy makers, and practitioners in SME sector, intending to improve performance of the SMEs. The firm's performance is vital for SME attaining a competitive edge to face challenges posed by intense competitive business environment as it is the case in the open market economy. Researchers, policy makers, and other stakeholders who would like to support and improve SME performance, will be able to target their scarce resources to firms possessing combination of dimensions of the strategic entrepreneurial response contributing to SME performance. Practitioners will be able to identify the gap and fill it by enhancing SMEs to acquire a combination of dimensions of strategic entrepreneurial response, necessary to attain a firm's performance. Understanding how SMEs attain performance is timely, given the prevailing competitive business environment in which SMEs operate.

1.4 RESEARCH OBJECTIVES

The general objective of this study is to examine the role of dimensions of strategic entrepreneurial response to foster simultaneous opportunity seeking and advantage seeking behaviour to enhance SME performance.

The general objective leads to the following specific objectives:

- To study the relationship between individual and composite dimensions of strategic entrepreneurial response and SME performance.

- To examine the amount of variance explained in SME performance by the composite dimensions of the strategic entrepreneurial response.
- To study the interaction of the composite dimensions of the strategic entrepreneurial response.
- To examine the amount of variance explained in SME performance by the interaction of the composite dimensions of the strategic entrepreneurial response.
- To study the influence of the demographical variables such as firm's size, type of industry, and level of education of owners/managers on the contribution of the composite dimensions of the SER in SME performance.
- To identify the best predictor that explains more variance in SME performance.

1.5 DEFINITION OF TERMS

This section briefly presents definitions of key terms used in this study. The intension is to clarify the terms and develop a common understanding from the onset of the study. The definitions covered under this section include; market orientation, entrepreneurial orientation, networking capability and strategic entrepreneurial response. The details of these concepts are reviewed in details in chapter three.

1 Market orientation

The concept of market orientation used in this study is based on the cultural perspective presented by Narver & Slater (1990:21) which is defined as "the organisation culture that most effectively and efficiently creates behaviours for the creation of superior value for buyers and thus, continuous superior performance for the business". The market orientation consists of three behavioural components: customer orientation, competitor orientation and inter-functional coordination.

2 Entrepreneurial orientation

Entrepreneurial orientation refers to a firm's strategic posture, reflecting how firms explicitly or implicitly choose to compete (Tang *et al.,* 2008:234). This encompaces processes like experimenting with promising new technologies, being willing to seize opportunities, and having a predisposition to undertake risky ventures. In this view, five dimensions namely; autonomy, innovation, risk taking, pro-activeness, and competitive aggressiveness are identified in the literature to characterise and distinguish key entrepreneurial processes that is part of the firm's entrepreneurial orientation (Lumpkin & Dess, 1996:139; Lumpkin and Dess, 2001:431; Miller, 1983:771).

3 Networking

Networking is the mutual relationship which involves a firm with its customers, suppliers and competitors and often extends across industry, geographic, political and cultural boundaries (Hitt *et al.,* 2001:481). It involves exchange of information, technologies, resources, knowledge and expertise (Hitt *et al.,* 2007:263; Ireland, Hitt, Camp. & Sexton, 2001:55) to enhance their competitive capabilities.

4 Networking capability

Networking capability refers to the abilities to initiate, sustain, and use inter-firms relationships with various external partners (Walter *et al.,* 2006:541). In other words, networking capability emphasizes on the ability to develop and sustain relationship with mutual benefits among collaborating firms or partners. Networking capability has four dimensions namely: coordination, relational skills, partner knowledge, and internal communication that management of firms need to focus for the firm's good performance.

5 Entrepreneurial strategy

According to Ireland, Covin and Kuratko (2009:28) entrepreneurial strategy is a "logical response to presence of three often related environmental conditions: competitive intensity, technological change, and evolving product market domains".

6 Competitive advantage

Competitive advantage is attained when a firm execute a strategy that rivals cannot copy or find too costly to imitate (Hitt *et al.,* 2007:4; Barney & Arika, 2005:140).

7 Competitive capability

Competitive capability is a firm's ability to position or organise resources using the firm's structures and processes to attain a strategic objective (Amit & Schoemaker, 1993:35).

8 Firm resources

Barney (1991:101) defined firm's resources as "all assets, capabilities, organizational process, firm's attributes, information, and knowledge controlled by a firm that enable it to conceive of and implement strategies that improve its efficiency and effectiveness".

9 Dynamic capabilities

These are the firm's capacities to integrate, build, and reconfigure internal and external resources/competencies to address and shape rapidly changing environments (Teece, Pisano, & Shuen, 1997:516). However, recently other scholars modified the definition and define dynamic capability as the capacity of an organization to purposefully create, extend, or modify its resource base in an effort to attain competitive advantage (Helfat, Finkelstein, Mitchell, Peteraf, Sing, Teece, & Winter, 2007:4).

1.6 LAYOUT OF THE STUDY

This study is organized in eight chapters; the breakdown of the proposed contents for each chapter is given below.

Chapter 1 Introduction and background to the study

Chapter one introduces the background information of the study that leads to the research problem. The research objective is another part that briefly indicate what the research intended to achieve, followed by the importance of the study which present justification of the study and indicate the contribution of the study in the field of entrepreneurship.

Chapter 2 Evolution of strategic entrepreneurship

Chapter two reviews literature on the evolution of strategic entrepreneurship as the response to dynamic and competitive business environment. It examines the conceptual components of strategic entrepreneurship and highlights the conceptual gaps facing strategic entrepreneurship. Guided by four theories namely networking theory, organisational learning theory, resource based view, and dynamic capability view, this study proposes three constructs namely market orientation, entrepreneurial orientation, and networking capability as appropriate to fill in the conceptual gap in strategic entrepreneurship.

Chapter 3 Concepts of strategic entrepreneurial response

Chapter three introduces the concept of strategic entrepreneurial response (SER) and the three proposed dimensions namely market orientation, entrepreneurial orientation, and networking capability. It reviews the relationship between the dimensions of SER and SME performance and the possible confounding variables in the relationship and finally introduces the research conceptual framework for this study.

Chapter 4 General overview of SME development in Tanzania

Chapter four provides general overview of SME development in Tanzania to serve as sample background. It highlights the social economic settings before and after independence and their implication in entrepreneurial culture and SME development. The trend of SME development and various strategies employed to support the sector are presented. The chapter concludes by pointing out the main challenges facing SME in Tanzania in the era of globalization and trade liberalization.

Chapter 5 Research methodology

Chapter five presents the research methodology, which capitalises on the research design and sampling, the measurement techniques of variables and indicators that were used to capture data for the proposed variables. The research design and sampling procedure give an insight on the population and the sample frame of the study. This chapter also point out ethical issues and integrity of research. It ends by indicating the methodologies of data analysis that were used to analyse data and make judgement on the advanced hypotheses.

Chapter 6 Findings of the research

Chapter six presents empirical findings of the research. The findings are presented in the form of descriptive statistics such as frequency and mean especially for demographic information to determine the distribution of variables. This part is followed by factor analysis that was used as a data reduction procedure and to determine the validity of the constructs and the measurement instruments used to collect data. Furthermore, the analysis of variance (ANOVA) is performed to examine influence of background variables in identified factors that subsequently contribute to SME performance, followed by the Pearson correlation analysis that tests the relationships among variables. The multiple regression analysis examined the relationship between dimensions of SER and SME performance and how much variance in SME performance is explained by the dimensions of SER. The multiple regression controlled the influence of the demographical variables on the amount of variance explained in SME performance by dimensions of SER and finally identifies the best predictor of SME performance.

Chapter 7 Discussion of findings

This chapter discusses the implication of the findings presented in chapter 6. First, it examines if the individual dimensions of market orientation, entrepreneurial orientation, and networking capability successfully measures the strategic entrepreneurial response (SER), and it proceeds to examine in detail the direct relationship of individual and composite dimensions of strategic entrepreneurial response and SME performance, and impact of interaction of the dimensions of strategic entrepreneurial response in SME performance. The discussion also point out the influence of firm size, type of the industry, and the level of education of owners/managers in the relationship between dimensions of SER and SME performance. It ends by isolating the best predictor to explain SME performance.

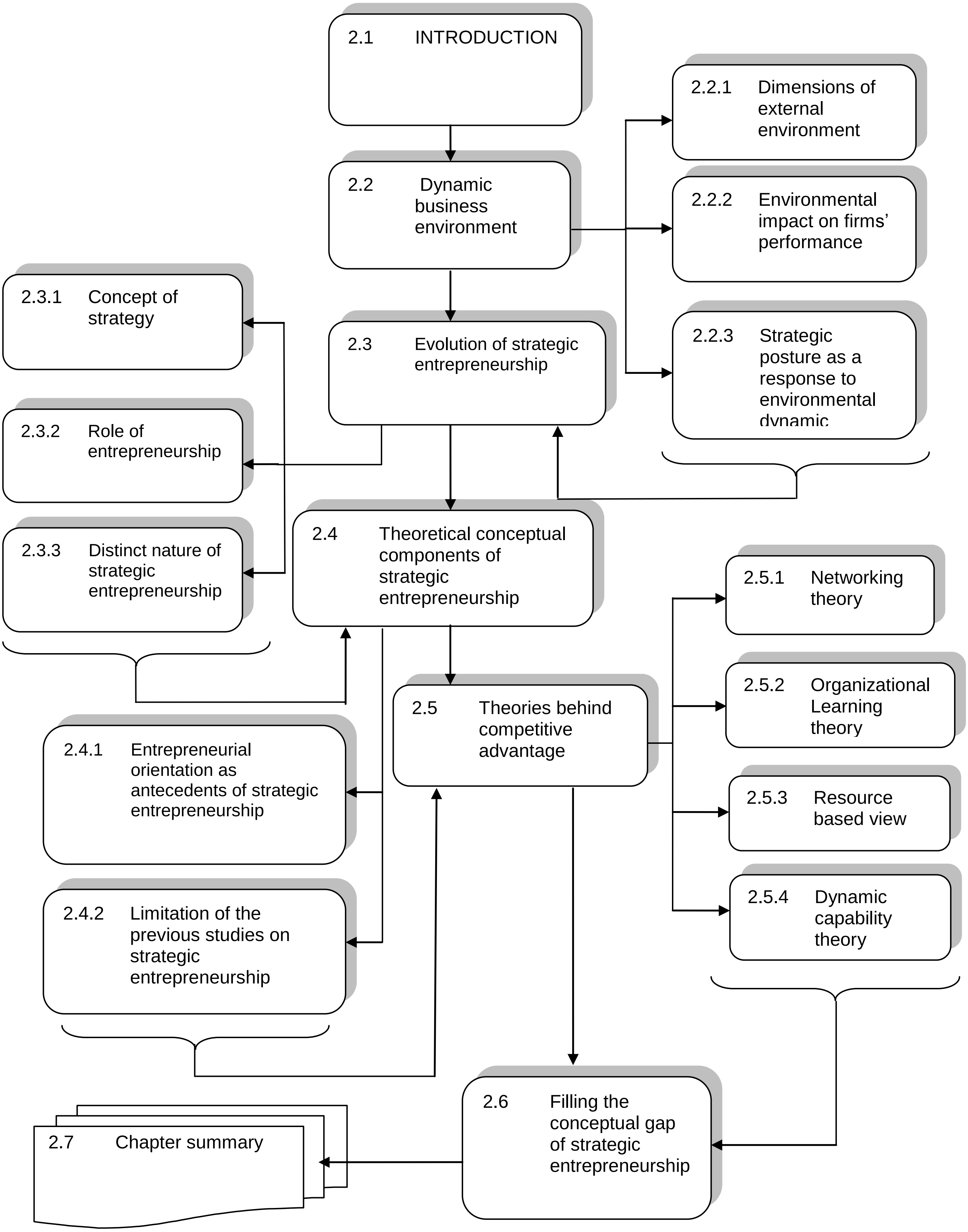
Chapter 8 Conclusions and recommendations

Chapter eight draws conclusions and recommendations from previous chapters on discussion of findings. The conclusion points out the major findings and their strategic implication while the recommendations highlight new areas for further study and appropriate areas for intervention to improve SME performance.

1.7 CHAPTER SUMMARY

This chapter introduces the background information to the research indicating why it is necessary to carry out this study. The justification to the study and the objective of this study show what the study intends to achieve and contribute to the entrepreneurship literature. The next chapter reviews the literature on the evolution of the strategic entrepreneurship and highlights the research gap that needs to be filled by this study.

CHAPTER LAYOUT – CHAPTER TWO



CHAPTER TWO

2 EVOLUTION OF STRATEGIC ENTREPRENEURSHIP

2.1 INTRODUCTION

This chapter presents literature review of strategic entrepreneurship as a response to the dynamic and competitive environment. It begins by introducing the concept of dynamic business environment and its impact on business performance. It highlights motivations for scholars in the field of strategy and entrepreneurship to search for appropriate responsive mechanism of firms to withstand challenges posed by continuous environmental changes. In the course of the review, this chapter capitalises on the previous works on strategic entrepreneurship by reviewing the conceptual components of strategic entrepreneurship, highlighting the main challenges confronting strategic entrepreneurship and the relevance of strategic entrepreneurship to small firms. It proceeds by highlighting the conceptual gaps of previous studies guided by four theories namely networking theory, organisational learning theory, resource based view, and dynamic capability view. The study identified entrepreneurial orientation, market orientation, and networking as appropriate constructs of strategic entrepreneurial response to address the conceptual gaps from previous studies.

2.2 DYNAMIC BUSINESS ENVIRONMENT

The globalisation and open market economy compelled modern firms both small and large to operate in turbulent and hostile environment that continuously pose threat to their growth and survival (Kuratko & Audretsch, 2009:1; Morris *et al*., 2008:7; Teece, 2007:1319). According to Covin and Slevin (1989:75) “hostile environments are characterised by precarious industry settings, intense competition, harsh, overwhelming business climate, and relative lack of exploitable opportunities”. On the other hand, a turbulent or dynamic environment is the condition in which environmental factors are in constant flux and future events are less predictable (Emery & Trist, 1965:18; Kuratko & Audretsch, 2009:7). The prominent environmental factors identified to impact firms performance in dynamic environments are technological change, competitive intensity, change in customers behaviour, regulatory environment, and demographic change (Ireland, Covin. & Kutatko, 2009:28; Morris *et al.,* 2008:4; Shane, 2003:23).

Today's business environment, more than ever before, is characterised by a fast change in these factors, a situation that leads to both new and established firms to design mechanisms to sense and respond to the environmental factors in order to survive and grow. However, the level of environmental turbulence is linked to the rate of change of environmental factors. The higher the turbulence in the environment, the higher the rate of change of the environmental factors and less they become predictable. Smart and Vertinsky (1984:200) studying corporate response to crisis identified two dimensions of an environment which determine a firm's response. The next section examines the dimensions of the environmental factors.

2.2.1 Dimensions Of External Environment

The literature conceptualise the external environment of the organisation as a continuum of change of which two dimensions are identified. Emery and Trist (1965:18) labelled the two sides of the continuum of which one side represents environmental stability (no change) and the other side represents turbulent or dynamic condition where environmental factors are in constant change. The rate of environmental dynamic or turbulence is related to the degree of uncertainty facing a firm. According to Hoskisson and Busenitz (2002:153), uncertainty occurs when there is inadequate information about cause and effect relationship that can be assigned to make prediction about the future outcome of an event. In this view, as you move along the continuum from a stable environment to the more turbulent, environmental factors that impacts firm performance become less predictable and more uncertain.

Globalisation and open market economy both have loosened country barriers that enabled free movement of people, capital, technology, goods, and services from one country to another (Hitt, Hoskisson, & Ireland, 2007:7; Hitt & Reed, 2000:27). This shift pushed each country to respond by removing protective policies and creating or developing new policies and regulations to support open market environment. The new environment is characterised by creativity and innovation that resulted into rapid technological changes (Teece, 2007:1322). The free movement of people, capital, technology, goods, and services on the other hand, expose consumers to new brands and tastes that shift consumer preferences. All these changes have implications on the way firms are managed and respond to these turbulence of which in turn impact performance (Morris *et al.,* 2008:1). It is from this context, the next sections highlight the impacts of environment on a firm's performance.

2.2.2 Environmental Impacts On A Firm's Performance

The new operating environment has created enormous pressure to the previous protected markets. Covin and Slevin (1989:75) confirm that external environmental factors have strong impact on small firm viability and growth. Operating and surviving in dynamic environments is not only a challenge to large, established firms (Kuratko & Audretsch, 2009:1), the consequences are high for small firms due to their limited resources (Kropp & Zolin, 2005:1; Verhees & Meulenberg, 2004:137) that limit execution or take bold strategic decisions that require resources. Supporting this argument, Ireland, Covin. and Kuratko (2009:33) postulate that entrepreneurial strategies suited for dynamic environment require resources. In this view, resource constrained firms like the majority of small firms are unlikely to benefit from entrepreneurial strategies, unless they complement available resources and capabilities from other options such as networking (Hitt *et al*., 2007:239; Ireland, Hitt, Camp. & Sexton*,* 2001:55).

While dynamic environment present opportunities (McGrath & MacMillan, 2000:1) unfortunately, not all firms are able to spot and exploit opportunities presented by the dynamic environment. The survival and viability of small firms in such environments depends mainly on how they respond to the challenges posed by the environment of which entrepreneurial strategies are considered appropriate (Cooper, Markman, & Niss, 2000:121; Morris *et al.,* 2008:1). To maximize long term performance of firms operating in turbulent environment, they are obliged to develop response mechanism to cope with the pace of environmental changes, as briefly highlighted in the next section.

2.2.3 Strategic Posture As A Response To Environmental Dynamic

The literature shows that firms respond and operate to the context in which they are exposed to. Ireland *et al.* (2009:28) conclude that "entrepreneurial strategy is a logical response to the presence of three often related environmental conditions: competitive intensity, technological change, and evolving (fragmented and/or emerging) product market domain". As such, entrepreneurial responses to address the mentioned environmental forces, require flexible coping entrepreneurial strategies and positive attitudes towards uncertainty. A dynamic firm with such attribute find even the most turbulent environment a source of opportunity (Smart & Vertinsky, 1984:201). Supporting this argument, Hoskisson and Busenitz (2002:153) and Kuratko and Audretsch (2009:1) point that in a dynamic environment characterised by uncertainty where environmental factors are difficult to predict, entrepreneurial mindset can be used as a way of thinking about business to capture benefits.

As such, the entrepreneurial response to address the environmental forces mentioned above requires firms to be creative and innovative, ability to take risks, act proactively in seizing opportunities and offering products and services to the market, adopt competitive aggressive strategies over rivals and have autonomy in decision making. According to Miller (1983:771) and Lumpkin and Dess (1996:139) firms with such behaviour are entrepreneurial oriented. By definition entrepreneurial orientation refers to a firm's strategic posture, reflecting how firms explicitly or implicitly chooses to compete (Tang *et al.,* 2008:234). The argument of relevance of entrepreneurial orientation on strategic posture is based on the influence to enhance both effective and efficiency service and products offering, that in turn capitalize on products or services differentiation, cost leadership and fast response strategies that foster a firm's competitive advantage. Hitt *et al.* (2007:4) postulate that a firm's competitive advantage is attained when a firm implement a strategy that competitors are unable to duplicate or find too costly to try to imitate.

Through creativity, and innovation, a firm is likely to come up with new products, services and/or technological processes that differentiate themselves from competitors. Consistently, through administrative and process innovation, firms may increase efficiency of production or service delivery that enables them to capitalise on the cost leadership strategy. According to Hitt *et al*. (2007:109) cost leadership strategy is an integrated set of actions taken to produce goods or services with features that are acceptable to customers at the lowest cost, relative to that of competitors. Development of new products or services involve risk taking in terms of financial investment that entrepreneur is not sure to recover the investment cost in case the product fails in the market. In case the products or services succeed in the market, proactively entrepreneurs benefit from first mover advantage and create wealth (Li *et al.,* 2008:119; Hitt *et al*., 2007:141). Opportunities in dynamic environment are dynamic and there are many competitors. Failure to compete aggressively and make timely decision to seize new opportunities, allow other competitors to take advantage. In this case, entrepreneurs with autonomy in making decisions are likely to make timely decisions and seize right opportunities at the right time.

The assurance of firms' survival and growth in dynamic business environment is characterised by steep competition, high risk, uncertainty, and fluid firm boundaries (Kuratko & Audretsch, 2009:1) is only granted to best performers. Due to continued trends towards greater environmental dynamics, learning to respond and compete in such environment becomes crucial to the survival and performance of small firms. As such, focus on entrepreneurial orientation alone is inadequate to face challenges posed by the environment. The argument is based on the fact that entrepreneurial orientation is more focused on opportunity seeking behaviour, which does not ensure sustainability of the created advantage. To sustain competitive advantage is a matter of advantage-seeking behaviour which is a domain of strategic management (Ireland, 2007:7; Schindehutte & Morris, 2009:242). In this case, the ability to navigate successfully in such an environment, the literature proposes a need to integrate entrepreneurship and strategic management of which it's intersection yield strategic entrepreneurship (Ireland, Hitt, Sirmon, 2003a:965; Kuratko & Audretsch, 2009:2). It is from this context the next section examine the evolution of the strategic entrepreneurship.

2.3 EVOLUTION OF STRATEGIC ENTREPRENEURSHIP

Strategic entrepreneurship is a new concept of academics and business practices (Ireland & Webb, 2007b:50; Schindehutte & Morris, 2009:241) which implies entrepreneurial actions with a strategic perspective (Hitt *et al*., 2001:480). Although much of related works were done before year 2001, it was until 2001 when special issues on strategic entrepreneurship was released (Hitt *et al*., 2001:488) that pledged for further integrative research to increase the understanding of strategic entrepreneurship as path to wealth creation. Following this call, Ireland *et al.* (2003a:967) developed a model of strategic entrepreneurship derived from resource-based view of a firm, human capital, social capital, organisational learning and creative recognition.

The evolution of strategic entrepreneurship is the response to a continuous change of business environment that has created a competitive landscape with substantial uncertainty (Kuratko & Audrestch, 2009:2). Despite of the short period, the strategic entrepreneurship field has existed, there has been encouraging progress made in defining a research agenda that seek to merge the opportunity seeking and advantage seeking behaviour (Ireland & Webb, 2007b:50). The opportunity seeking behaviour is the central subject of entrepreneurship focused on identification and exploitation of today's competitive advantage and advantage seeking behaviour is the central subject of the strategic management aimed at exploring to determine what it takes to sustain competitive advantage in future (Ireland & Webb, 2007b:59).

In the previous studies, phenomena of interest have been defined. Bygrave (1989:14) suggest that "a good science has to begin with precise definitions of concepts" to develop a common understanding amongst the research community. This has been accomplished by identifying dependent variables which include performance (Covin & Slevin, 1989:83; Monsen & Boss, 2009:713) and wealth creation (Hitt *et al.,* 2001:488; Ireland *et al.,* 2003a:967; Ketchen *et al.,* 2007:381). Others include competitive capability, strategic repositioning (Ireland *et al*., 2009:24) and strategic learning capability (Anderson, Covin & Slevin, 2009). Previous studies also have examined various antecedents mainly in terms of variables like entrepreneurial orientation (Anderson *et al*., 2009; Monsen & Boss, 2009:95), market responsiveness, organizational structure, environmental hostility, and strategy formation (Anderson *et al*., 2009; Covin & Slevin, 1989:76). Others include entrepreneurial mindset, culture, leadership, resource management, creativity and innovation (Ireland *et al.,*2003a:980; Ketchen *et al.,*2007:376), and other firm level variables that capture the firms motivation and ability to engage simultaneous competitive and advantage seeking behaviours that leads to performance and wealth creation of a firm.

However, focusing on wealth creation as a measure of strategic entrepreneurship does not ensure sustainable advantage, a central subject of strategic management that partly justified the emergence of strategic entrepreneurship. Among reasons; wealth creation can result from discovering and exploiting short-lived opportunities which does not ensure sustainability. Clarifying the domain of strategic entrepreneurship Ireland *et al.* (2003a:968) and Ireland, Hitt, Camp and Sexton (2001:50) pointed out that for a firm to attain sustainable competitive advantage they need to strategically apply entrepreneurial wealth creation mechanisms. Thus a firm's strategic intent must continuously discover and exploit entrepreneurial opportunities, in order to continuously create competitive advantage that leads to maximum wealth creation (Hitt *et al.,* 2002:2; Ireland & Webb, 2007b:59).

While Kuratko (2007:157) and Morris *et al.(*2008:80) termed strategic entrepreneurship as a concept of corporate entrepreneurship that suits large and established firms, Monsen and Boss (2009:74) and Ireland *et al.(* 2003a:983) suggested that strategic entrepreneurship caters for new and established firms and to both small and large firms with the argument that firms of all sizes and categories need sustainable competitive advantage to survive in a competitive and dynamic environment. In this view, despite disagreements on the appropriate model that fit both small and large firms, there is much consensus on the role of strategic entrepreneurship which is conceived as how a firms' strategic intent facilitate sustainable process of discovering entrepreneurial opportunities for advantage seeking behaviour (Ireland & Webb, 2007b:50; Ireland & Webb, 2009:469; Morris *et al.,* 2008:88). To gain more insight in this concept the next sections briefly clarifies related concepts such as strategy, strategic management, and entrepreneurship which are considered as the building blocks of the strategic entrepreneurship.

2.3.1 Concept Of Strategy

The dynamic environment requires firms to develop competitive strategies that enable to face challenges posed by competitors and enable to survive and perform better than rivals. There are different conceptualizations about strategy. According to Porter's (1996:64), strategy is about doing different activities than competitors or performing similar activities in a different way. Consistently, Agarwal, Audretsch and Sakar (2007:272) define strategy as a "theory about how to gain competitive advantage. Barney and Arikan, (2005:140) contend that competitive advantage exist when "a firm is implementing value creating strategies not currently being implemented by competing firms". Strategy is crucial in a dynamic environment (Helfat *et al,* 2007:1), it gives a firm ability to face challenges posed by the environmental changes and outperform rivals. Thomson (2001:9) defines strategy as a means to an end, which imply that strategy is a collection of what business does to attain objectives. This may include, but not limited to the methods they follow, set of activities executed, decisions they make in order to attain/reach certain objectives and levels of success.

There are several factors which all together create business environments. These factors include technological change, competitive intensity, policy and regulations, to mention a few (Ireland *et al.,* 2009:28; Morris *et al*., 2008:4; Shane, 2003:3). In dynamic environment these factors change rapidly, which implies that for a firm to survive and grow, it must adjust itself to cope with these changes that may impact negatively on the firm. In the process of response to environmental change, firms must be flexible to create proactive and adaptive strategies to accommodate such changes. Depending on the rate of environmental change, the firm may adopt creativity and innovation (increamental and/or radical) to ensure that it responds to the pressure of environmental change to attain set objectives. Ireland *et al.* (2009:28) point that entrepreneurial strategy is a logical response to the dynamic forces of the environment. In support of this argument Thomson (2003:3) pointed that "a firm's strategy consists of the combination of competitive moves and business approaches that managers employ to meet customer needs, compete successfully and achieve firm objectives".

In view of the above, a firm's strategy is a tool used by the management to place a firm at a competitive market position, carry out firm operations, attract and meet customer demands/needs, compete successfully and finally attain the firm's objectives. According to Thomson (2003:9) the firm objectives are the firm's performance target results and outcomes that a firm wants to achieve and they are used as a yardstick to measure the firm's performance. In other words, strategies are plans of actions designed to achieve the firm's objective. Based on this understanding, the next sections broaden our understanding of the concept of strategy by highlighting the essence of strategy evolution and the focus on business strategy.

2.3.1.1 Essence of strategy evolution

The modern environment in which both small and large firms operate is dynamic (Covin & Slevin, 1989:75; Ireland & Webb, 2007b:58; Kuratko & Audretsch, 2009:7; Teece, 2007:1322) . Every firm faces challenges that needs strategic entrepreneurial responses to cope with the shifting of industry and competitive landscape, changes of customer's preferences, initiatives of rival firms to increase market share, emerging of new opportunities and threats, changes in technology and other events that affect business performance (Ireland *et al.,* 2009:28: Ketchen *et al.,* 2007:371). In some cases, strategic changes are necessary when competitors make a revolutionary change that demands a dramatic response, when technological breakthroughs occur or when crisis strikes and major strategy are needed very quickly (Kuratko & Audretsch, 2009:7). In support of this argument, Thomson (2003:16) contends that a firm's strategy reforms over time as the number of changes and adaptations begin to mount. In this view, strategy is the response to environmental change in the effort to sustain or gain a new competitive capability of a firm.

In light of the above, the strategy renewal is inevitable in dynamic environment. The strategic renewal ranges from transformation of firm through the renewal of key ideas in which it is built (Guth & Ginsberg, 1990:5), to a complete redefinition of a firm's relationship with its markets or industrial rivals by fundamentally altering how it compete (Covin & Miles, 1999:52). The focus of strategic renewal is in particular, the strategy that mediates the firm. This is the environment interface which basically implies how a firm sense the environmental impulse and strategically respond to maintain competitive capability. In this case, strategic renewal is context specific, which implies that it varies from one context to another. Smart and Vertinsky (1984:201) articulate that "managers in more uncertain environments tend to assume greater risks and employ more innovative strategies than managers in less turbulent environments". This articulation implies that strategic entrepreneurial response is more relevant in dynamic and competitive environment than in stable environment, which again support the advanced argument that strategic entrepreneurship emerged as a response to increasingly environmental turbulence to maintain a competitive advantage (Ireland *et al*., 2009:20)

Recent studies, Alvarez and Barney (2007:19), present two contexts in which strategies may vary: discovery and creation contexts. They argue that in discovery context, there is usually sufficient information to allow evaluation of critical assumptions in a strategy of which in turn the implications of these assumptions are anticipated, specific timelines for executing the strategy can be specified, and the size of market and potential returns can be estimated. However, given a time span, some elements of these strategies may be modified to reflect the environmental changes occurred over time. In the creation context, entrepreneurs are not exposed to the ex-ante information; therefore strategic formation relies mostly in experimenting, flexibility and learning by doing (Ireland *et al.,* 2009:20; Kuratko & Audretsch, 2009:7). The role of managers amongst others is to re-examine the effectiveness, efficiency and relevance of the strategy on regular basis and take corrective measures as the need arises to keep a firm matched with the pace of the environmental changes and maintain the right direction to achieve the firm's objective (Alvarez & Barney, 2007:19; Thomson, 2003:3).

A firm's strategy is a means to achieve ends, it answers management questions as to whether a firm should concentrate on a single business or create a diversified group of business, whether to pursue competitive strategy based on low cost or product superiority, how to respond to changing customer preferences, how to react to newly emerging market and competitive environment, and how to grow the enterprise over the long term (Thomson, 2001:9). A strategy thus reflects managerial choices amongst alternatives and signals a firm's commitment to particular products, markets, competitive approaches and ways of operating the firm. Based on the role strategy play in attaining business objectives, it is important to understand the focus of business strategy, of which the next section briefly highlights.

2.3.1.2 Focus of business strategy

In general, a firm's strategies are formed for several purposes, but mostly are likely to focus on business growth, customer satisfaction and outsmarting rivals. This is basically a response to the changing environmental conditions such as technologies and market conditions. This is possible if a firm focuses on creating competitive advantage over rivals that keep the firm stand out in the competing environment. The competitive advantage is the management centred domain and it is basically grounded in the resources and capabilities the firm uses to perform value adding transactional activities better than it's rivals (Ireland *et al.,* 2001:53). Teece (2007:1319) based on dynamic capability view, argues that firms hold heterogeneous and idiosyncratic resources on which their strategies are based and through which competitive advantages are achieved when strategies are successfully in leveraging these resources.

Alvarez and Barney (2007:21) argue that when entrepreneurs create and retain value from opportunity, it requires barriers to the diffusion of the source to competitors. The protection of intellectual property rights through patents and copyright where technological change and innovation give rise to entrepreneurial opportunity, is a central focus of strategic management of a firm as it gain and sustain competitive advantage (Schendel & Hitt, 2007:4). In the course of exploitation of such opportunities the strategically managed firm continues to scan the environment, evaluate new needs of customers, and other environmental factors that may impact the future needs of customers and or the performance of the firm. Through strategic renewal it takes appropriate measures where necessary to sustain competitive advantage. Drawing from this context, it is logical for the next section to present briefly the concept of strategic management and the process through which it takes to sustain the firm's competitive advantage.

2.3.1.3 Strategic Management

The evolution of the field of strategic management can be traced back to 1979 when Schendel and Hofer (1979:2) wrote a book on "Strategic management: A new view of business policy and planning". This was a turning point for scholars viewing business policy and planning in a perspective of strategic management (Nag, Hambrick, & Chen, 2007:936). Strategic management is the field of interest that attracted attention of scholars from different fields such as economics, sociology, marketing, psychology, and finance (Hambrick, 2004). The diverse of scholars from different academic backgrounds might have contributed to the lack of consensual meaning of the field. Nag *et al.* (2007:935) assert that the field of "strategic management remain fragmented and lacks coherent identity". According to Astley (1985:507) and Cole (1983:112) "an academic field has socially negotiated boundaries and only exists if a critical mass of scholars believes it to exist and adopt a shared conception of its essential meaning". While this argument hold true in the advancement of the scientific field, strategic management suffers from heterogeneity of scholars' intellectual and specialities; consequently a different perception on the field is evident.

In the effort to further our understanding of the field of strategic management, various definition have been advanced trying to develop a common understand among scholars. Schendel and Hofer (1979:11) defined strategic management as "a process that deals with the entrepreneurial work of organization, with organizational renewal and growth, and particularly, with developing and utilising the strategy that drives the organisations' operations". Nag *et al.* (2007:944) views that the field of strategic management deals with the major intended and emergent initiatives taken by general managers on behalf of owners, involving utilisation of resources, to enhance performance of firms in their external environments. Recently, Morris *et al.*

(2008:192) gives broader view of the Strategic management as an art and science of formulating plans for effective management of external opportunities and threats in light of a firm's internal strengths and weaknesses.

In the broader context, strategic management provides the overall direction of the firm through formulation of strategic vision and mission, setting objectives, crafting strategies as means to achieve objective, implementing and executing strategies, monitoring and evaluation, to determine the effectiveness, efficiency and relevance of strategies and take corrective measures whenever it is necessary. This may suggest that strategic management is not a once-off operation; it is a continuous process that aims to sustain competitive advantage throughout the life time of the firm.

2.3.1.4 Scope of strategic management

The focus of strategic management is on activities aimed at attaining and sustaining the competitive advantage of a firm, that subsequently enhance sustainable performance over rivals (Ireland, 2007:7; Nag *et al*., 2007:948; Schindehutte & Morris, 2009:242). The most commonly cited sources of competitive advantages are based on resources that are more valuable, rare, imperfectly imitable, and none substitutable than those held by competitors (Barney, 1991:105; Katkalo, Pitelis, & Teece, 2010:1175). This implies that a combination of resources that is valuable, difficult to copy by competitors and none substitutable by alternative bundles of resources to create a competitive advantage of a firm.

In competitive environments, strategic management is responsible for continuous search of new sources of a competitive advantage, which entails an ability to envision all resources and core capabilities of the firm, in terms of how they might be uniquely combined to create sources of value (Kuratko & Audretsch, 2009:2). Existing evidence supports the assertion that differences in a firm's performance are affected by both owned and controlled resources, as well as how the firm manages resources (Ireland *et al.,* 2003a:977). The scope of strategic management is the actions taken by firm to select favourable market opportunities as the context within which their unique and valuable resources can be exploited in ways that are difficult for competitors to understand and certainly imitate (Ireland, 2007:7). It is evident that this can be well accomplished if strategic management is coupled with the entrepreneurial behaviour capitalized on continuous identification or creation of new opportunities that make a pool of feasible opportunities for strategic management to choose from.

In view of the above, it is clear that while entrepreneurship is responsible for continuous search and exploitation of new opportunities, strategic management focuses on sustaining the competitive advantage of a firm. At this stage it becomes crucial to understand the sources of opportunities and the scope of entrepreneurship as presented in the subsequent sections.

2.3.2 Role Of Entrepreneurship

Scholars tend to agree that entrepreneurship is associated with the identification and exploitation of opportunities (Shane, 2003:4; Shane & Vankataraman (2000:211), which implies that opportunities exist and are waiting to be discovered. Recent study using both discovery theory and creation theory, support these arguments that opportunities exist when competitive imperfection exist in the market (Alvarez & Barney, 2007:7). However, the two theories differ in their analysis of the origin of these competitive imperfections. In discovery theory, competitive imperfections are assumed to arise from external environment, or some other attributes of context within which an industry or market exists (Kirzner, 1973:10). The emphasis on the external environmental shocks forming opportunities, imply that entrepreneurs systematically scan the external environment to discover opportunities to exploit (Alvarez & Barney, 2007:13: McGrath & MacMillan, 2000:1). Other scholars echoed that opportunities surface primarily because of the disequilibrium that is created by continuous changes of the environmental factors such as technological changes, demographical dynamics, changes of consumer behaviour and other related factors (Kuratko & Audretsch, 2009:7; Shane, 2003:23; Schindehutte & Morris, 2009:240).

On the other hand, creation theory is focused on the premise that opportunities are created endogenously, by actions, reactions, and enactment of entrepreneurs exploring ways to produce new products and services (Baker & Nelson, 2005:359).

Supporting this view, other scholars pointed out that opportunities arise from imagination and insight and leads to create valuable inventions and innovations (McGrath & MacMillan, 2000:1; Schendel & Hitt, 2007:3). Consistently, Ireland, Kuratko and Covin (2003b:695) articulate that exploring opportunities contributes to the firm's effort to form a sustainable competitive advantage and create wealth. Since the opportunity, recognition, identification, and or creation are accomplished by entrepreneurship (Shane, 2003:4). It is from this context that a need arise to review the scope of entrepreneurship in sustaining competitive advantage as presented in the next section.

2.3.2.1 Scope of entrepreneurship

Whether opportunities are created or discovered is debatable, but scholars tend to agree that entrepreneurship focuses on newness and novelty in the form of new products, new processes and new markets as the drivers of wealth creation (Ireland *et al.,* 2003a:968; Ireland *et al.,* 2001:50). The literature in entrepreneurship supports this argument with the premise that exploitation of the entrepreneurial opportunities contributes to the firm's effort to create competitive advantage essential to generate wealth (Ketchen *et al.,* 2007:371). Other scholars have emphasized a need to manage resources strategically to attain competitive advantage as a condition to create wealth (Hitt *et al,* 2001:486). This implies that strategic management of resources creates bundles of resources that are valuable, rare, and that cannot be easily copied by competitors before a firm has adequate time to generate wealth (Wiklund & Shepherd, 2003:1313; Katkalo *et al.,* 2010:1175). In event, where a bundle of resources can be easily imitated through strategic management of resources, firms set barrier to protect it from being copied. This can be achieved through acquiring of intellectual property right (Schendel & Hitt, 2007:4).

2.3.2.2 Sustainability of competitive advantage

Sustainable competitive advantage is crucial in a competitive business environment where SMEs operate. It is through possession of the sustainable competitive advantage, firms are able to outperform rivals. These arguments implies that despite of the entrepreneurship process being responsible for opportunity recognition, discovery, identification and/or creation as explained before (Schendel & Hitt, 2007:1), it is not sufficient by itself to bring about sustainable competitive advantages necessary for wealth creation. The sustainable competitive advantage necessary for a firm's performance and wealth creation is attained only if the firm promote successfully, continuous opportunity seeking and advantage seeking behaviours and the firm's strategies successfully leverage the available resources (Hitt *et al.,*, 2001:482).

In light of the above, both opportunity seeking behaviour and sustainable competitive advantage are crucial for a firm attaining higher performance over rivals. According to Ireland (2007:9) and Ireland *et al.* (2003a:966) opportunity seeking is an entrepreneurial behaviour responsible for continuous search and creation of opportunities, while sustaining competitive advantage is the role played by strategic management that is engaged in making feasible choice of opportunities for exploitation and managing resources strategically. In view of this, other scholars have indicated that integration of knowledge about entrepreneurship and strategic management that form strategic entrepreneurship is crucial to further our understanding of how wealth and performance is attained in new venture and established firms (Ireland *et al.,* 2003a:966; Ireland & Webb, 2007b:59; Schendel & Hitt, 2007:1). It is from this context that the next section presents the distinct nature of strategic entrepreneurship covering in details the intersection of entrepreneurship and strategic management and their implication in sustaining the competitive advantage of a firm.

2.3.3 Distinct Nature Of Strategic Entrepreneurship

To understand the distinct nature of the strategic entrepreneurship, it requires critical review of the main focuses of both the strategic management and entrepreneurship and draws the convergence elements that build foundation for the creation of a new concept (strategic entrepreneurship). In light of this, the next section briefly presents intersection of strategic management and entrepreneurship, in order to show how the field of strategic entrepreneurship emerged.

2.3.3.1 Intersection of entrepreneurship and strategic management

As the environmental dynamics continues to threaten the survival and performance of businesses, Ireland & Webb (2007b:59) suggested that the response to such environmental challenges require intervention strategy that simultaneously exploit today's competitive advantage and exploring for future's competitive advantage. Ketchen *et al. (*2007:373) termed exploring and exploitation as opportunity seeking and advantage seeking behaviours, respectively. While the field of strategic management and entrepreneurship have developed largely separately from each other, they have something in common. Both are focused on how firms adopt environmental changes and exploit opportunities resulted from uncertainties and discontinuities (Gifford, 2010; Kuratko & Audretsch, 2009:7; Schindehutte & Morris, 2009:246; Shane, 2003:23). McGrath & MacMillan (2000:1), supporting this view, articulate that uncertainties present opportunities, thus employing entrepreneurial mindset can be used to the firm's advantage.

In view of the above, not all firms have ability to identify, discover and or create opportunities in the turbulent environments. It is only those that utilise an entrepreneurial mindset to recognize and impart meaning to an ambiguous situation, that turn into opportunities (Alvarez & Barney, 2002:90). However, the process of opportunities identification, discovery and or creation does not ensure sustainable competitive advantage in a dynamic environment. This only happens when it is coupled with continuous exploitation of the identified or created opportunities. Based on the fact that opportunity creation and or identification is associated with entrepreneurship (Shane & Venkataraman, 2000:211; Shane, 2003:4) and exploitation of identified and created opportunities, sustainable competitive advantages are attained through strategic management of resources (Schendel & Hitt, 2007:1; Ireland*,* 2007:9; Morris *et al.,* 2008:192). It is from this perspective; other scholars have indicated that entrepreneurship and strategic management share a common boundary and in this case, they are inseparable (Meyer, Neck, & Meeks*,* 2002:33) if a firm is to attain superior performance and create wealth (Ketchen *et al.,* 2007:371; Ireland *et al.,* 2003a:967). Barney (1991:102) emphasize the role of managers, critical to performance of their firms due to their ability to identify and create appropriate combination of resources owned or controlled by firms to appropriate value from those resources.

As much as it is agreed that entrepreneurship is involved in the identification, and or creation of opportunities, entrepreneurial actions are then geared towards creating new ventures (Ireland*,* 2007:9; Shane, 2003:4; Shane & Venkataraman, 2000:211). On the other hand, strategic management provide a vision of what a firm want to be and how it plans to get there and formulate strategies as a means to attain their objectives (Thomson, 2003:6). Strategy creates a sense of unit or consistent actions throughout the firm, where every employee knows the firm's objectives and the role it is responsible for to contribute to the overall objective of the firm (Kuratko & Audretsch, 2009:3). Coupled with the continuous scanning of the environment and strategic renewal when it is necessary, strategic management has been singled out to place more emphasis on a firm's sustainable competitive advantage, necessary for a sustainable firms' performance and wealth creation (Barney & Arikan, 2005:124: Ketchen *et al.,* 2007:371)

In light of the above, both strategic management and entrepreneurship are dynamic processes responding proactively or reactively to the environmental changes to enhance firm performance which in turn creates wealth (Kuratko & Audretsch, 2009:2). Entrepreneurship focuses on a continuous creation and search for opportunities which are sources of competitive advantage through products or services, production or administration process, and market innovations (Shane, 2003:4; Shane & Venkataraman, 2000:211). On the other hand, strategic management calls firms to establish and exploit competitive advantages within a particular environment (Meyer *et al.,* 2002:33). It is from this context, Ireland *et al.* (2001:50) argued that strategic management provides the context for entrepreneurial actions and calls for choices to be made amongst competing alternatives and entrepreneurial opportunities constitute a primary source of choices to be made from a set of identified opportunities. These arguments have raised concern amongst scholars interested in the field of entrepreneurship and strategy and some have argued that entrepreneurship and strategic management are complementary fields of studies and not interchangeable (Schindehutte & Morris, 2009:243). For the purpose of broadening our understanding of the intersection between entrepreneurship and strategic management, the next section examines the concept of strategic entrepreneurship.

2.3.3.2 Concept of strategic entrepreneurship

Strategic entrepreneurship is an emerging field of study (Shindeutte & Morris, 2009:241) that involves simultaneous opportunity seeking and advantage seeking behaviours which leads to superior firm performance and wealth creation (Ireland *et al.,* 2003a:963; Ketchen *et al.,* 2007:371). Hitt *et al.* (2001:480) and Ireland *et al.* (2003a:966) term strategic entrepreneurship as entrepreneurial actions with a strategic perspective that evolved from integration of entrepreneurship and strategic management knowledge. While strategic entrepreneurship is widely acknowledged to result from strategic management and entrepreneurship, it is not yet clear whether it results from integration (Morris, *et al.,* 2008:194; Ireland, *et al.,* 2001:49; Ireland *et al.,* 2003a:966; Hitt *et al.,* 2001:481), intersection or interface (Meyer *et al.,* 2002:33), versus (Ireland, 2007:7), takeover or acquisition (Baker & Pollock, 2007:297) between the two fields of strategic management and entrepreneurship. Meyer (2009:346) made few observations on the words interface, integrate, versus, and takeover or acquisition. During analysis, Meyer (2009:346) argues that neither integration, takeover, nor versus appears friendly with the meanings of interface or intersection of which according to Meyer *et al.* (2002:33) were much more suited to describe the evolution of strategic entrepreneurship. In Baker and Pollock's (2007:297) and Meyer's (2009:341) views, allowing other terms such as integration, takeover, and acquisition, it is likely that strategy is succeeding in its takeover of the academic field of entrepreneurship, while in reality the two fields namely strategic management and entrepreneurship co-exist and the interface of the two fields form the strategic entrepreneurship.

Despite of the debate surrounding which terms should be used in bringing together strategic management and entrepreneurship to form strategic entrepreneurship, scholars agree that strategic entrepreneurship is relevant for firms using their resources and skills in dynamic environment to be able to respond to a significant environmental change that confronts many firms and create value for customers (Ireland & Webb, 2007b:50; Schendel & Hitt, 2007:1). Ireland *et al* (2003a:966) pointed out that the competitive advantage is sustained through continuous identification and exploitation of new opportunities. The sustainable competitive advantage is created when firms combine effective opportunity seeking behaviour with effective advantage seeking behaviour (Ketchen *et al.,*2009:371; Ireland *et al.,* 2001:53), which implies that it should exploit today's competitive advantages, while exploring for the innovation that form foundation of the future's competitive advantage (Ireland & Webb, 2007b:50).

Opportunity is defined as the creation of new value to society in part or in whole (Schendel & Hitt, 2007:1), which Wickham (2006:433) referred to as the gap left in the market by those who are currently operating it. By continuous identification of these gaps and exploiting them, firms are enabled to capitalise on the first mover advantage. First mover advantage is associated with the pro-active behaviour which implies being the first to introduce new products/services or to create new markets that never existed before (Li *et al.,* 2008:119; Hitt *et al*., 2007:141). This phenomenon is also associated with the innovation and risk taking behaviour. To sustain competitive advantage in such environments, the firm has to develop barriers from competitors to restrict imitation and or copying of products and services, which can be accomplished through acquiring patent or copyright (Schendel & Hitt, 2007:4) or creating resource combinations that are valuable, rare, and not easy to imitate or copy (Barney, 1991:105; Katkalo *et al.,* 2010:1175; Ketchen *et al.,* 2007:380).

In Miller's (1983:771) view, a firm is entrepreneurial if it behaves in a risk taking, innovative, and pro-active manner. Covin and Slevin (1990:125) used this conception to define strategic posture as a firm's general competitive orientation. However, Lumpkin and Dess (1996:136) added two more dimensions, competitive aggressiveness and autonomy and refined the concept of strategic posture into "entrepreneurial orientation" that refers to the processes, practices, and decision making activities that lead to new entry (Lumpkin & Dess, 1996:136). While entrepreneurial orientation has often been used in the context of corporate entrepreneurship (Dess & Lumpkin, 2005:147), its roots are clearly in the broader tradition of strategic management and therefore is well suited for investigations of strategic entrepreneurship (Monsen & Boss, 2009:75) in both new venture and established firms (Hitt *et al.,* 2001:488).

According to Ireland *et al.* (2003a:966) "small firms and new ventures are relatively skilled in identifying entrepreneurial opportunities, but less effective in developing and sustaining the competitive advantage needed to exploit those opportunities over time. In contrary, established businesses have demonstrated relatively superior skills in terms of developing and sustaining competitive advantages, but have less effective skills in recognizing entrepreneurial opportunities that can be exploited with their resources and resulting capabilities". Drawing from resource based view, resources that are rare, inimitable and non-substitutable (Barney, 1991:105; Katkalo *et al.,* 2010:1175) when owned and managed strategically (Schindehutte and Morris, 2009:242) by the firm, leads to a sustainable competitive advantage (Ireland *et al.,* 2003a:967).

Examining the resource status of small firms, it is characterised by inadequate resources (Kropp & Zolin, 2005:1; Nieto & Santamaria, 2010:45; Verhees & Meulenberg, 2004:137). No wonder this is among the reasons why they cannot sustain competitive advantage as reversed to their counterpart large firms which enjoys resource munificence. It is from this contention, other scholars indicate that strategic entrepreneurship is a corporate domain and not appropriate for small firms (Morris *et al.,* 2008:80; Kuratko, 2007:157). On the other hand, new ventures and small firms are relatively privileged to identify new opportunities, because they enjoy internal conditions that encourage innovativeness such as; entrepreneurship, flexibility and rapid response (Nieto & Santamaria, 2010:45). Also, small firms are not tied with the technological inertia, as used to be in large and established firms which have invested heavily on existing technologies. This situation makes them reluctant to adopt a new technology due to cost implication, which is in most cases not the case for new entrants or small firms.

The antagonistic behaviour between small and large firms in terms of opportunity identification and sustaining competitive advantage does not help to address the challenges of environmental dynamics confronting both small and large firms. While scholars agree that strategic entrepreneurship is appropriate for a firm to address challenges posed by the dynamic and competitive environment (Schindehutte & Morris, 2009:242), the debate is still on which constructs are appropriate for both small and large firms. With this understanding, Ireland *et al* (2003a:967) developed a model of strategic entrepreneurship presented in the next section that is considered appropriate for both small and large firms.

2.3.3.3 A model of strategic entrepreneurship

Persistent dynamic environment and competitive pressure in today's business environment created a need to develop appropriate response mechanisms to sustain competitive advantage for both small and large firms. It is from this view, the dynamic model of strategic entrepreneurship was developed by Ireland *et al* (2003a:967), that integrates perspectives from the resource based view of the firm, human capital, social capital, organizational learning and creative recognition (Monsen & Boss, 2009:74). The model identified four dimensions to create ability of a firm to develop competitive advantage that leads to wealth creation. These dimensions are entrepreneurial mindset, entrepreneurial culture and entrepreneurial leadership, managing resources strategically and applying creativity and developing innovation (Figure 2.1).

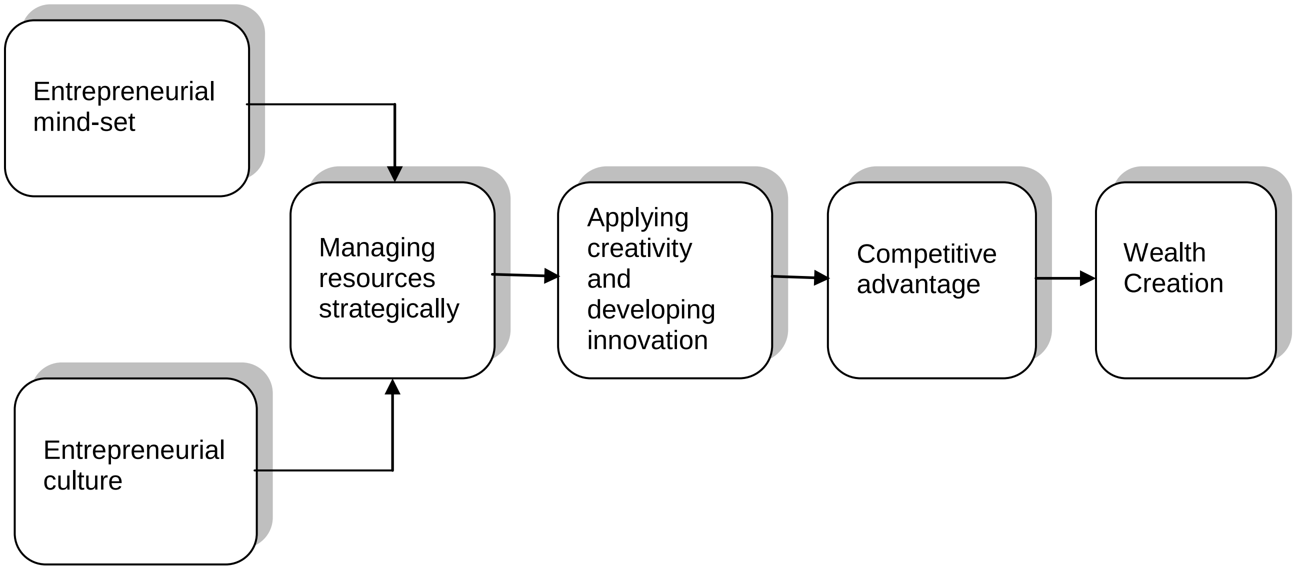


Figure 2.1: A model of strategic entrepreneurship
Source: Ireland *et al* (2003a:967)

The model considers a firm as a basic unit of analysis and it assumes a need for simultaneous opportunity seeking and advantage seeking behaviours in order for firms to maximize wealth creation (Ireland *et al.,* 2003a:966). The opportunity seeking behaviour is more of an entrepreneurial action responsible for a firm's identification of new opportunities, creates new markets, seizes new customers, and creates a new combination of resources that are inimitable to create a firm's competitive advantage. On the other hand, advantage-seeking behaviour is more of strategic-behaviour responsible for selecting strategies to sustain competitive advantage (Ireland *et al.,* 2001:50). According to Schindehutte and Morris (2009:242) the opportunity seeking behaviour and advantage seeking behaviour complement each other and the balance of the two is attained through strategic management of resources that is achieved by employing entrepreneurial mindset, entrepreneurial culture and entrepreneurial leadership. Despite of a compelling argument that strategic entrepreneurship is appropriate for the firms operating in a dynamic and competitive environment, the concept face several challenges that deserve mentioning. In this regard, the next section highlights briefly the main challenges confronting strategic entrepreneurship.

2.3.3.4 Relevance of strategic entrepreneurship in small firms

The majority of the previous scholars on strategic entrepreneurship focused their studies on corporate entrepreneurship and regarded strategic entrepreneurship as much more relevant for corporate entrepreneurship than small firms (Kuratko, 2007:157; Morris *et al.,* 2008:88). Among reasons for excluding small firms in strategic entrepreneurship, is the idea that small firms struggle with the managerial challenges and other resources (Kropp & Zolin, 2005:1; Nieto & Santamaria, 2010:45; Verhees & Meulenberg, 2004:137). The pursuit of entrepreneurial strategies such as entrepreneurial orientation requires resources (Covin & Slevin, 1991:15). The risk taking, innovativeness and proactiveness of entrepreneurial firms, all involves large resource commitments to risky projects, untried technologies, new products or services to the market (Tang *et al.,* 2008:222). As such, this argument has been echoed by other scholars that a firm's competitive capabilities are built through recognition and exploitation of entrepreneurial opportunities, which requires resources (Ireland *et al.,* 2009:35). In this view, small firms cannot be able to integrate entrepreneurial opportunity seeking and advantage seeking behaviour leading to new, valuable and unique business concepts because of inadequate resources.

In a dynamic and competitive environment, firms regardless of their sizes, face the same environmental consequences. The survival of businesses in such environment must strive to execute entrepreneurial strategies to attain sustainable competitive advantage (Cooper *et al.,* 2000:121). Ireland and Webb (2007b:50) asserted that the need for a firm to learn how simultaneously exploit current opportunities better than competitors while exploring new opportunities for future success, is crucial in a dynamic environment. The emergence of the strategic entrepreneurship solve this puzzle, since it is the intersection of strategic management and entrepreneurship that yield entrepreneurial opportunity seeking and advantage seeking behaviours oriented to give superior value creation and at the same time reduction of competitive threats (Hitt *et al.,* 2001:50). Strategic entrepreneurship is a dynamic construct, describes a deliberate and enacted wish to seek for and respond to shifts in the environment (Kuratko & Audretsch, 2009:14), which is suitable to all business categories such as large, small, established and corporate entrepreneurship. Hitt *et al.* (2001:488) suggests that new ventures and established firms need to be simultaneously entrepreneurial and strategic, for small and large firms that learned to integrate both strategic and entrepreneurial skills, are well positioned to survive and create wealth in a dynamic and competitive environment (Ketchen *et al.,* 2007:371).

Drawing from dynamic capability view, strategic entrepreneurship provides guidelines for the interaction between competitive strategies and allocation of resources, where acquisition and building of resources into unique, cost effective, and valuable patterns aimed at addressing the rapidly changing environments (Helfat *et al.,* 2007:2). Bachmann (2002:64) affirm that competitive strategy remains the foundation for understanding competition, rivalry and industry dynamic which is crucial to both small and large firms. For firms to perform better, the entrepreneurial action has to be strategic in keeping competitors away from its successful business model, while speeding up the firm to attain the set objectives (Kutatko & Audretsch, 2009:5).

2.4 THEORETICAL CONCEPTUAL COMPONENTS OF STRATEGIC ENTREPRENEURSHIP

Several conceptual components used in strategic entrepreneurship are borrowed from strategic management and entrepreneurship literature (Tang *et al.,* 2008:219; Ireland *et al.,* 2001:49; Ireland & Webb, 2007b:51) where they are conceptualised and empirically tested. Strategic entrepreneurship itself, as a new and emerging field, has not developed robust and empirical tested constructs (Ireland 2007:9; Schindehutte & Morris, 2009:241). Despite of the strategic entrepreneurship being quick to converge on an overall general accepted theoretical model with wealth creation and performance as the outcome variables, there are few empirical studies on the conceptualised causal relationships (Hitt *et al.,* 2002: 2, 13; Ireland *et al.,* 2003a:963; Ireland *et al.,* 2009:20; Ireland & Webb, 2007b:58; Ketchen *et al.,* 2007:371; Kuratko & Audrestch, 2009:5). It is from this context, recent studies suggested that there is a need for strategic scholars to be creative and innovative in selecting constructs to further the understanding of strategic entrepreneurship (Ireland, 2007:9; Monsen & Boss, 2009:74). In this context the next section presents antecedents of strategic entrepreneurship as applied in previous studies.

2.4.1 Entrepreneurial Orientation As Antecedent Of Strategic Entrepreneurship

Monsen and Boss (2009:74) used entrepreneurial orientation as an antecedent of strategic entrepreneurship, with the argument that the degree to which a firm acts entrepreneurially in terms of innovation, risk taking, and proactively, is related to strategic management. Moreover, entrepreneurial orientation refers to the strategy making practices that businesses use to identify and launch new ventures (Dess & Lumpkin, 2005:147; Lumpkin & Dess, 1996:136). In this case an entrepreneurial orientation is essential component of entrepreneurial firm in an opportunity identification and exploitation (Shane, 2003:4; Shane & Venkataraman, 2000:211). Covin and Slevin (1991:8) pointed earlier that a construct closely aligned with the focus of strategic entrepreneurship, is an entrepreneurial orientation with the argument that “an organisation’s actions make it entrepreneurial” which imply that organisational behaviour is regarded as the means through which an entrepreneurial orientation can be recognised. It is from this argument, that entrepreneurial orientation has been often used in empirical research as an antedates of strategic entrepreneurship.

2.4.1.1 Dimensions of strategic entrepreneurial orientation

While Miller (1983:771) identified three dimensions of the entrepreneurial orientation namely; innovation, risk taking and pro-activeness, it was Lumpkin and Dess (1996:139) who clarified the entrepreneurial orientation and added two more dimensions namely: competitive aggressiveness and autonomous. Ireland, Kuratko and Covin (2003b) argued that although variations on the levels of some dimensions of entrepreneurial orientation may exist amongst firms, continuously leveraging entrepreneurial opportunities requires firms to deliberately enact entrepreneurial orientation. This argument is based on the important role played by the entrepreneurial orientation in the process of opportunity identification and exploitation.

Miller (1983:771) argues that a firm is classified as an entrepreneurial when it engages in risk taking, innovation, and proactive business practices. Based on this argument, Covin and Slevin (1990:125) defined “strategic posture as a firm’s general competitive orientation, on a spectrum from conservative to entrepreneurial”. Initially, the scale of strategic posture was used to investigate a number of strategic management and entrepreneurship issues such as environmental hostility (Covin & Slevin, 1989:75), strategic posture (Covin & Slevin, 1990:128), strategic mission (Covin, Slevin, & Schultz, 1994:485) and strategic process effects (Covin *et al.,* 2006:59). While previous studies have often used the concept in entrepreneurship, Monsen and Boss (2009:75) and Lumpkin and Dess (1996:136) pointed out that the origin of the concept of entrepreneurial orientation is strategic management. The clear overlap between strategic management and entrepreneurship explains why entrepreneurial orientation has been one of the favourable empirical constructs in strategic entrepreneurship.

Monsen and Boss (2009:75), based on the three dimensions of entrepreneurial orientation identified earlier by Miller (1983:771), examined a model of strategic entrepreneurial developed by Ireland *et al.* (2003a:967) and reported that the "dimensions of entrepreneurial orientation: risk taking, innovativeness, pro-activeness, are mostly closely representing the concept of "applying creativity and developing innovation" that encompasses both sustaining and disruptive innovation as drivers of wealth creation (Ireland *et al.,* 2003a:983) (Figure 2.1). In their views, Monsen and Boss (2009:75) argued that "disruptive innovators proactively influence their competitive destiny" and enjoy first mover advantage by destroying incumbent's market power and create wealth for their firms (Lumsdaine & Binks, 2009:15; Ireland *et al.,* 2003a:980). Based on this argument the concept of pro-activeness was added in the model of strategic entrepreneurship.

Furthermore, Monsen and Boss (2009:75), based on the argument raised by Ireland *et al.,* (2003a:983) that it is "risk to introduce a new product or service in the market to compete with existing goods with the established reputation", proposed that the concept of "risk taking" be included in the model of strategic entrepreneurship. Based on this argument, Monsen and Boss (2009:75) proposed that the concept of "applying creativity and developing innovation" in the model of strategic entrepreneurship developed by Ireland *et al.* (2003b) (Figure 2.1) should include risk taking, innovation, and pro-activeness which are basically dimensions of entrepreneurial orientation. The proposed list of dimensions of entrepreneurial orientation fall short of two more dimensions: autonomy and competitive aggressiveness proposed by Lumpkin and Dess (1996:139) to capture the full spectrum of entrepreneurial orientation that has five dimensions namely: innovation, risk taking, proactiveness, autonomy, and competitive aggressiveness.

2.4.1.2 Relevance of autonomy and competitive aggressiveness

Building on Miller's (1983:771) conceptualisation of entrepreneurial orientation of three dimensions: innovation, risk taking, and proactiveness, Lumpkin and Dess (1996:139) extended the concept of entrepreneurial orientation by adding two more dimensions: autonomy and competitive aggressiveness. Lumpkin, Cogliser, and Schneider (2009:63) argued that "autonomy affords a firm's member the freedom of decision-making and flexibility to develop and enact entrepreneurial initiatives with little interference of the firm's line of command as the crucial aspect of entrepreneurial value creation and central to the notion of strategic entrepreneurship”. This is especially crucial in dynamic and competitive environment where opportunities are dynamic and they require timely decisions. Covin *et al.,* (2006:60) share a similar view, that “timely decisions are important to catch up with the market opportunities as they unfold, since even entrepreneurial oriented firms that are proactive by definition may not quickly respond to new market opportunities if their decision processes are slow”.

On the other hand, competitive aggressiveness in this context associated with the reality that in competitive environment, competing firms are alert and focused to competitors and always strives to defend their competitive position by both proactively and reactively strategies against rivals to ensure survival (Lumpkin & Dess, 2001:434). In this case, the competitive aggressiveness has competitive strategic orientation. While autonomy and competitive aggressiveness have been accepted as dimensions of entrepreneurial orientation (Lumkin & Dess, 1996:139), they have never been tested empirically in strategic entrepreneurship. Previous studies have criticised the unidimension nature of the entrepreneurial orientation and indicated that each dimension of entrepreneurial orientation varies independently and have different effects in different contexts (Monsen & Boss, 2009:75; Lumpkin & Dess, 1996:137). This study considers it worth to test all five dimensions of entrepreneurial orientation and examine their individual effects on a firm’s performance as a measure of strategic entrepreneurship.

2.4.1.3 Relevance of entrepreneurial orientation in strategic entrepreneurship

While the use of entrepreneurial orientation in strategic entrepreneurship is new and there have been several justifications to employ the construct in the emerging field of the strategic entrepreneurship (Monsen & Boss, 2009:74; Ireland *et al*., 2009:24), there are several reasons to believe that entrepreneurial orientation is a suitable construct to strategic entrepreneurship. Another way to justify the use of entrepreneurial orientation on strategic entrepreneurial is by examining its objective. Various studies have focused on the examination of the relationship between entrepreneurial orientation and performance (Ketchen *et al.,* 2007:605; Kraus *et al.,* 2005:335; Walter *et al.,* 2006:557). The performance is measured by several indicators such as return on asset, return on investment, profit, sales growth, and wealth (Covin *et al.,* 2006:71). Examining strategic entrepreneurship is also focused on how firms are able to generate sustainable performance and wealth creation (Ketchen *et al.,* 2007:371; Ireland & Webb, 2007b:58; Ireland *et al.,* 2001:49). In this regard, these constructs focus on the same target.

Rauch, Wicklund and Frese (2009:762.) in their meta-analysis of entrepreneurial orientation reported that entrepreneurial orientation had been widely used in examining the relationship with a firm's performance. Similarly, Covin *et al.* (2006:72) pointed that "entrepreneurial orientation facilitate growth when entrepreneurial oriented firms employ strategic formation processes that match the unique requirements of acting entrepreneurially". This argument is consistent with the observation reported earlier by Ireland *et al.* (2001:50) on the concept of strategic entrepreneurship that contributes to wealth creation, which in turn leads to growth.

In this view, it is relevant to examine the relationship between entrepreneurial orientation and strategic entrepreneurship. Since entrepreneurial orientation reported previously to varies with context (Kreiser, Morino, & Weaver, 2002:85; Lumpkin & Dess, 1996:159; Rauch *et al.,* 2009:762). It is important to examine the structure of the construct to determine how it influences the firm's performance. In this context, the next section presents a review of structure of entrepreneurial orientation and its relationship to a firm's performance as a measure of strategic entrepreneurship.

2.4.1.4 Structure of entrepreneurial orientation

The structure of the entrepreneurial orientation construct has been debated. Previous studies have raised two opposing arguments. First scholars on the concept of entrepreneurial orientation such as Miller (1983:780) and Covin and Slevin, (1990:125) viewed and promoted unidimensional nature of the concept. In this view, the dimensions of entrepreneurial orientation were expected to converge to a single construct "entrepreneurial orientation", vary together, and have collective effect regardless of the context. However, this argument was criticised by other scholars who reported that the "entrepreneurial orientation" construct is of a multidimensional nature (Monsen & Boss, 2009:75; Lumpkin & Dess, 1996:160), which implies that the dimensions of entrepreneurial orientation vary independently of each other, depending on the context. Moreover, the relationship between individual dimensions of the entrepreneurial orientation and performance may likewise vary on the same context (Lumpkin & Dess, 1996:159).

While Lumpkin and Dess (1996:150) presented theoretical argument on multidimensional nature of the entrepreneurial orientation, the empirical evidence of the multidimensional nature of the entrepreneurial orientation was presented following studies performed in different contexts. Kreise *et al.* (2002:85) assessing the psychometric properties of the entrepreneurial orientation across multiple country contexts confirmed empirical variation of the strength of dimensions of the strategic entrepreneurial orientation. Consistently, Monsen and Boss (2009:93) confirmed multidimension nature of entrepreneurial orientation and reported that each dimension had a different effect on the outcome variable. Lumpkin and Dess (2001:446) used a sample of multi industry, reported that the effect of the dimensions of entrepreneurial orientation (i.e. pro-activeness and competitive aggressiveness) varies independently. These empirical findings confirmed previous theoretical arguments presented earlier that dimensions of entrepreneurial orientation may vary independently based on the environment and organisational context (Lumpkin and Dess, 1996:137; Rauch *et al.,* 2009:762).

In line with the above findings, Covin *et al.* (2006:81) reported significant difference in terms of effects of risk taking, innovation, and pro-activeness on a firm's sales growth rate. These findings imply that the mentioned dimensions of strategic entrepreneurial orientation (risk taking, innovation, and pro-activeness) has separate effects on the outcome variable (sales growth rate). Supporting this finding, other scholars have treated risk taking, innovation, and pro-activeness as separate, but correlated constructs (Monsen & Boss, 2009:76). Consistently, Lumpkin *et al.* (2009:65) confirmed autonomous as an independent dimension of the entrepreneurial orientation and emphasised on the advantage of multidimensional nature of the entrepreneurial orientation that is easy to isolate an individual effect of each dimension in the relationship of interest and take appropriate measures to address the specific dimension.

2.4.2 Limitation Of The Previous Studies On Strategic Entrepreneurship

Strategic entrepreneurship is still a new field that has not developed its robust constructs. Consequently, various scholars have pledged to creatively and innovatively select constructs of interest for empirical test in order to further our understanding of the causal effect relationship and be able to isolate constructs that most suit strategic entrepreneurship. Despite of the efforts made so far to develop this new domain, potential gaps exist in terms of conceptualisation (Shindehutte & Morris, 2009:242) and form limitations that deserve mentioning. In this view, the next sections briefly highlight the limitations of the previous studies on strategic entrepreneurship.

2.4.2.1 Conceptual gaps of strategic entrepreneurship

In dynamic and competitive environment, firms requires strategic entrepreneurial responses to cope with the competitive landscape in which events such as consumer needs, technological opportunities, and competitor activities are constantly changing and less predictable (Cooper *et al.,* 2000:121; Teece, 2007:1322). Growth oriented firms need to adopt a new competitive strategy that is flexible, fast and innovative which is oriented towards timely identification and exploitation of emerging opportunities created by discontinuities as a result of environmental change (Kuratko & Audretsch, 2009:7). In such, literature indicate that the appropriate strategy in competitive and dynamic environment is the one that is continuously exploring and exploiting opportunities while sustaining competitive advantage for the future (Ireland & Webb, 2007b:50). In this view, strategic entrepreneurship is an approach that is widely accepted to serve firms well in their efforts to rely on competitive advantages as the path to superior performance, both today and in the future (Ireland & Webb, 2007b:55; Ireland & Webb, 2009:469; Ketchen *et al.,* 2007:371).

Despite of the appealing argument raised by proponents of strategic entrepreneurship, which is well suited to sustain competitive advantage through integration of opportunity seeking and advantage seeking behaviours, as necessary conditions to face challenges in dynamic and competitive environment, recent studies have indicated their concern on the potential gaps in terms of its conceptualization. Schindehutte and Morris (2009:242) argued that “it is less clear whether this hybrid called strategic entrepreneurship is a subfield within the entrepreneurship discipline, a subset of strategic management, or corporate entrepreneurship, or a separate domain”. It is from this view, other scholars have argued that strategic management is succeeding in its takeover of the academic field of entrepreneurship (Baker & Pollock, 2007:297). Furthermore, Schindehutte and Morris (2009:242) suggest that “strategic entrepreneurship is more than interface between strategy and entrepreneurship and call to treat fusion of strategy and entrepreneurship as a debatable idea rather than settled issue”. The argument present the conceptual gaps of the strategic entrepreneurship and open up more opportunities for further research to select and test more constructs that explain the causal–effect relationship in the domain of strategic entrepreneurship.

2.4.2.2 Marginal position of small firms in strategic entrepreneurship

While it is true that both small and large firms are exposed to environmental challenges that requires strategic entrepreneurial response (Ireland *et al.,* 2009:28), it is likely that small firms are much more negatively impacted by these challenges compared to large and corporate entrepreneurial firms due to limitation of resources (Kropp & Zolin, 2005:1; Nieto & Santamaria, 2010:45; Verhees & Meulenberg, 2004:137). This fact calls for immediate response for scholars to come up with the robust responsive mechanism that creates competitive capabilities of small firm. With this in mind, Ireland *et al.* (2003a:967) proposed a theoretical model of strategic entrepreneurship intended to enable both small and large firms to create sustainable competitive advantage. Despite of this effort, the proposed theoretical conceptual model of strategic entrepreneurship is still debated on whether the proposed constructs are adequate to enhance sustainable competitive advantage of small firms. This argument is supported by the recent studies that indicate strategic entrepreneurship is a sub-domain of corporate entrepreneurship (Kuratko, 2007:157; Morris *et al.,* 2008:88). The on-going debate calls for further research to examine and come up with the most appropriate strategic entrepreneurship constructs that will cater for both small and large firms.

2.4.2.3 Under-representation of dimension of entrepreneurial orientation

These conceptual gaps of previous models of strategic entrepreneurship (Schindehutte & Morris, 2009:242), that captures both small and large firms (Ireland *et al*., 2003a:967), open up further research to re-conceptualize the construct of strategic entrepreneurship. In this view, other constructs such as entrepreneurial orientation, that was considered closely linked to strategic entrepreneurship, were included in the strategic entrepreneurship model (Monsen & Boss, 2009:74). However, the dimensions of entrepreneurial orientation included in the model of strategic entrepreneurship were based on Miller's (1983:771) conceptualization with only three dimensions (i.e. innovation, pro-activeness, and risk taking) disregarding the other dimensions (i.e. competitive aggressiveness and autonomy) as extended by Lumpkin and Dess (1996:139). In the light of the fact that the dimensions of entrepreneurial orientation varies independently based on the context and level of industry life cycle development (Lumpkin & Dess, 2001:446) and have different effects in the outcome variables (Monsen & Boss, 2009:93), this study considers it appropriate to include all five dimensions of entrepreneurial orientation in order to capture the full spectrum of the entrepreneurial orientation.

2.4.2.4 Underplaying the role of market orientation in strategic entrepreneurship

Drawing from the literature, it is clear that strategic entrepreneurship is focused on opportunity seeking and advantage seeking behaviours (Ireland & Webb, 2009:469). While opportunity seeking behaviour is focused on identification, and or creation of entrepreneurial opportunities, advantage seeking behaviour is focused on exploitation and sustaining competitive advantage (Ireland & Webb, 2007b:50). As such, examining the two concepts opportunity seeking and advantage seeking behaviours are interrelated. This implies that continuous identification and successful exploitation of the entrepreneurial opportunities contribute to develop advantage seeking behaviour that leads into a sustainable competitive advantage, which is central in a competitive environment. In such, this observation is relevant, since entrepreneurial strategy is viewed as a source of a firm's competitive advantage (Cooper *et al.,* 2000:121), a way in which established firms develop capabilities that are central to their continuing performance.

Referring to the concept of "opportunity" as the gap left in the market by those who are currently operating in it and the concept of metaphor wall presented by Wickham (2006:433) in a search process of opportunity, it is clear that opportunity seeking behaviour involves identification of market gaps, evaluation of market gaps, take decision to exploit them when it is feasible and set barriers to competitors to attain sustainable competitive advantage. Market gaps are unsaved products or services in the market of which to sustain competitive advantage of a firm, the process of searching unsaved products and services in the market and exploiting them must be continuous to be able to generate adequate market intelligence, which form the basis for current and future market intervention strategies (Bhuian, Menguc, & Bell, 2005:10). Baker and Sinkula (2009:445) articulate that strong market orientation leads to products innovation. This articulation is based on the fact that through market orientation the firm is able to identify current and future needs of customers and understand clearly what strengths and weaknesses of competitors and other market forces may affect them.

The strategic entrepreneurship literature places more emphasis on strategic management and entrepreneurial posture (Ireland *et al.,* 2003a:966; Hitt *et al.,* 2001:480), and remain silent on the role market orientation can play to enhance a firm's competitive advantage. Amongst others, instituting the concept of market orientation in the model of strategic entrepreneurial orientation will enhance future market intervention strategies to focus on filling market gaps by offering more value to customers through incremental and or radical innovation and enable the firm to create wealth. Baker and Sinkula (2009:457) suggest that in "dynamic environment, strong market orientation is necessary to anchor a strong entrepreneurial orientation to those opportunities that are likely to be received by customers". In this view, it is compelling to believe that strategic entrepreneurship is strongly linked to market orientation through opportunity seeking. While this should be the case, previous studies underplayed the role of market orientation in strategic entrepreneurship. Hence a need for this study to include in the model of strategic entrepreneurship and examine how it contributes to build a firm's competitive advantage and attain its performance.

With the understanding that small and large firms differs on requirements and access to resources, the next section presents a review of theories behind competitive advantage and indicates how both small and large firms can build and sustain competitive advantages in dynamic and competitive environment.

2.5 THEORIES BEHIND COMPETITIVE ADVANTAGE

There are several theories which can be used to explain the sources of a firm's competitive advantage and the persistent differential in performance among firms. This study reviews four theories, namely: networking theory, organizational learning theory, resource based view and dynamic capability view. These theories are considered relevant to the nature of this study; hence they are reviewed to explain the source of competitive advantage and the persistent performance differential amongst firms.

2.5.1 Networking Theory

Networking is the mutual relationship that involves firms with customers, suppliers and competitors amongst others and often extends across industry, geographic, political and cultural boundaries (Hitt *et al.,* 2001:481). In dynamic and competitive environment where future is less predictable due to uncertainty, networking has increasingly become important for firms to share risk implied by the environment. The literature points among others, advantages resulting from networking to include faster market penetration, obtaining support and resources for survival such as access to information, technologies and competitive valuable knowledge that enhance innovation capability (Dickson & Weaver, 2011:126; Welter & Smallbone, 2011:112; Nieto & Santamaria, 2010:47; Semrau & Werner, 2012:159). In this view, networking theory help to explain the relationships a firm has with other firms and stakeholders, and how these relationships influence a firm's behaviour and competitive capabilities.

In strategic perspectives networking is crucial for SMEs like the one under this study, since in most cases they are limited with resources (Kropp & Zolin, 2005:1; Nieto Santamaria, 2010:45; Verhees & Meulenberg, 2004:137) to effectively implement strategies as a response to a firm's competitive environment (Dickson & Weaver, 2011:126; Welter & Smallbone, 2011:112). Nieto and Santamaria (2010:62) posit that networks allow firms to gain access to resources they need and learn new capabilities from networking partners that boost technological capabilities and innovation. McEvily and Zaheer (1999:1152) share similar views that the greatest value of networks for entrepreneurial firms is the access of resources and capabilities needed to compete effectively in the market place. In competitive environment, effective social capital is crucial if firms are to benefit. Effective social capital focuses on the internal social capital and external social capital. External social capital is crucial for acquiring new knowledge that add value to firms and the internal social capital is essential in transforming the gained knowledge that support the exploitation of entrepreneurial opportunities by creating and successfully using competitive advantage.

It is argued that internal and external social capital can be more beneficial for market oriented firms which are engaged on acquisition, dissemination, and utilisation of the market intelligence to attain firm performance. Kohli and Jaworski (1990:3) define market orientation as the "organisation-wide generation of market intelligence, dissemination of market intelligence across departments, and the organisation-wide responsiveness to market intelligence". Through market intelligence, a firm gathers information pertaining to current and future needs of customers, exogenous factors outside the firm that may influence current and future needs of customers and competitive action which sustain competitive advantage. The dissemination of market intelligence involves sharing existing and anticipated information throughout the firm to develop a common understanding of all workers so that the firm's effort is directed to a common goal (Kuratko & Audretsch, 2009:3). The market responsiveness focuses on altering system and creating appropriate combination of resources that provide competitive advantage over rivals in exploiting opportunities at hand with the objective to maximize customer satisfaction (Baker & Sinkula, 2009:457; Gorry & Westbrook, 2011). Examining this critically, it reflects the learning process that follows the same pattern of information acquisition, assimilation, dissemination and storage (Ireland *et al.*, 2001:157).

In this regard, it becomes relevant to review organisational learning theory to explain how firms acquire competitive advantage through learning process that can partly be enhanced by networking. It is from this background the next section presents the review of organisational learning theory.

2.5.2 Organisational Learning Theory

Organizational learning theory explains how firms develop its knowledge base over time and deploys its stock of knowledge to achieve performance which in turn creates wealth (Ketchen *et al.,* 2007:379). The literature identify two types of firm's knowledge explicit (articulable) and tacit (unarticulated) of which most of it resides in senses, movement skills, physical experiences, and intuition (Nonaka & Krogh, 2009:635). Both explicit and tacit knowledge are relevant to opportunity seeking and advantage seeking behaviours (Lane & Lubatkin, 1998:462). In this view, organisational learning is a pillar of strategic entrepreneurship that engages on both opportunity-seeking and advantage-seeking activities to attain superior performance and wealth creation (Ketchen *et al.,* 2007:371; Ireland *et al.,* 2003a:967; Ireland & Webb, 2009:469). Ireland *et al.* (2001:57) identifies four stages the learning process goes through: information acquisition, information dissemination, information sharing/interpretation, and organisational memory/storage. This implies that market orientation provides a good base of learning process since it covers all four stages of the learning process (Kohli & Jaworski, 1990:3).

In a dynamic and competitive environment, learning new capabilities is crucial. It enhances a firm's competitive ability to withstand pressure posed by the environmental changes and competitors. Hitt *et al.* (2001:483) suggests that changes taking place in a firm's environment can reduce the value of its current resources (i.e. knowledge) thus continuous organisational learning to generate new knowledge may be necessary to help a firm adapt to its environment. These arguments are supported by previous studies, in strategic management that organisational learning is linked to a firm's ability to innovate continuously and generate competitive advantages of which the development of new knowledge reduces the likelihood that a firm's competences will become outdated. Instead the competences on which the advantages are based remain dynamic and changes are in accordance with the environmental changes (Ireland *et al.,* 2001:58). In view of the market orientation being involved in continuous scanning of environment, generating market intelligence pertaining to customers and competitors behaviours, and other environmental conditions that may affect customers' demands, it is well placed to generate strategic information required for learning purposes and create sustainable competitive advantage of a firm.

While large and small firms operate in the same environment, they face different environmental challenges. Among other reasons for this is the difference on the resource base between large and small firms that is crucial to make strategic decisions (Nieto & Santamaria, 2010:45). Large firms that enjoy resource advantages, have well developed infrastructure for information/knowledge acquisition, distribution, interpretation once information is collected, and robust decision making structure that sort out knowledge for immediate use and to be stored for future use (Ketchen *et al.,* 2007:379). In the face of environmental turbulence, large firms have options to retrieve relevant knowledge from storage or apply generated new knowledge to solve the problem at hand. Effective knowledge transfer within the firm facilitates timely decision making of which within the context of continuous environmental change, it enables the firm to cope with the environmental change and sustain a competitive advantage which is the core value of the strategic entrepreneurship (Ireland & Webb, 2007b:50).

On the other hand, small firms are limited with resources (Kropp & Zolin, 2005:1; Nieto & Santamaria, 2010:45; Verhees & Meulenberg, 2004:137). In this regard, they cannot afford or acquire sophisticated technologies for information handling or recruit specialised human resource that hold appropriate capabilities, knowledge, skills and experience of knowledge management. In this background small firms are restricted on the type and amount of information or knowledge they collect. Ketchen *et al.,* (2007:379) pointed that small firms, due to their limited storage capacity of information and knowledge, they acquire, distribute and share information and knowledge of immediate use which enable firms to address their mission. This focus enables small firms to enhance continuous exploration of new opportunities (Ireland & Webb, 2007b:50) to keep them alive. However, in a turbulent environment, sustaining competitive advantage requires integration of knowledge which by far supersedes the capacity of small firms in terms of available expatriates and other relevant resources consequently, undermine the ability of a firm to sustain competitive advantage. The arguments partly explain why small firms are skilled in opportunity-seeking but not skilled in sustaining competitive advantages.

In the context of strategic entrepreneurship that focuses on simultaneous opportunity seeking and advantage seeking behaviour, networking provide learning ground for partners that benefit both small and large firms. Dickson and Weaver (2011:126) and Welter and Smallbone (2011:112) articulate that networks allow firms to gain access to resources and services they need, but do not poses, learn new capabilities, establish legitimacy, and develop a desirable reputation in the market place. Nieto and Santamaria (2010:61) provide evidence that resources and capabilities are beneficial in networks when they are complementary to those of partners in the network and help to narrow the innovation gap between small and large firms. Networking strategy can be beneficial for both small and large firms (Dickson & Weaver, 2011:126) to complement resource needs through learning and sharing of resources with partner firms to attain both opportunit seeking and advantage-seeking behaviours necessary for strategic entrepreneurship. With regards to the concept of resources and their role on competitive capabilities, the next section presents the resource based view that elaborate how resources are determinant of a differential firm's performance.

2.5.3 Resource Based View

The resource based view, is the most theoretical perspective cited within the strategic management (Barney & Arikan, 2005:124) and increasingly entrepreneurship research (Alvarez & Busenitz, 2001). The resource based view state that certain assets and capabilities provide the base for a competitive advantage and thereby set the stage for substantial firm performance and subsequent wealth creation (Barney, 1991:105). The resource based view, deepen our understanding on how firms combine and manage resources to create competitive advantage (Michael, Storey & Thomas, 2002:56; Alvarez, & Barney, 2002:90). In such, the resource based view is positioned to present a way to identify and explain persistent performance differential among firms. Barney (2001:54) defines resources as the tangible and intangible assets firm uses to choose and implement its strategies. To yield competitive advantage, resources must be valuable, rare, imperfectly imitable, and none substitutable (Ireland, 2007:7; Barney, 1991:105; Katkalo *et al.,* 2010:1175) by competitors. Katkalo *et al.* (2010:1176) identified several strategic resources that include intellectual property (patents/copy) rights, brand name, reputations, process know how, customer relationships, and knowledge possessed by groups especially skilled employees that could lead into competitive advantage.

Drawing from strategic perspectives, the resource based view suggests that the competitive advantage relies on the resource combination a firm creates or acquires to implement its strategy (Barney & Hesterly, 2006:131). Brush, Greene & Hart, 2001:64) established a link between resources and differential firm performance among firms. This has compelled entrepreneurship scholars to put more emphasis on a particular type of resources to examine and identify differential firm performance on the ability to identify and exploit entrepreneurial opportunities (Ireland *et al.,* 2003a:972). Barney and Arikan (2005:136) affirm that "idiosyncratic resources have stronger influence on performance than industrial characteristics, although the relative firm size effect can vary by industry. While it is evident that idiosyncratic resources are likely to create sustainable competitive advantage, it is only when such resources are managed strategically. Ireland *et al.* (2003a:973) assert that "resources are managed strategically when their deployment facilitates simultaneous opportunity seeking and advantage seeking activities" which are dimensions of strategic entrepreneurship.

Despite of longstanding and application of the resource based view in strategic management and in entrepreneurship research, with the continuous increase in environmental change, the resource based view is considered inadequate to explain differential performance among firms. According to Teece (2007:1344), resource based view is static theory that is not able to cope with the environmental changes taking place at a very fast pace. In this case, the next section reviews the dynamic capabilities theory that is considered relevant to explain differential performance amongst firms in the competitive and dynamic environment.

2.5.4 Dynamic Capabilities Theory

The dynamic capabilities view help to explain how firms attain differential performance in dynamic environment. Teece (2007:13220) posit that in a fast paced environment where customer needs, technological, opportunities, and competitor's activities are constantly changing, it requires unique and difficult to replicate dynamic capabilities. This view argues that superior performance of a firm comes from the ability of a firm to change its resource base in the face of environmental change (Helfat *et al.,* 2007:4; Katkalo *et al.,* 2010:1177). In this view, it implies that the capacity of the firm to create appropriate bundles of resources that match a specific context and its flexibility to adjust the combination of these resources to cope with the pace of environmental change, enhance superior performance of the firm. Dynamic capabilities are defined as the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environment (Teece *et al.,* 1997:516). In this regard, dynamic capabilities view incorporates past learning process as they are acquired through a learning pattern of collective activity, through which it systematically generates and modifies its operational routines in pursuit to improve performance.

However, the subsequent studies on dynamic capabilities refined and extended the definition (Helfat *et al.,* 2007:4; Katkalo *et al.,* 2010:1177; Teece, 2007:1341; Di Stefano, Peteraf & Verona, 2010:1188). Despite of the minor deviation on different definitions given by the different scholars they had something in common, all insisted on the firm's ability to alter its resource base and match with the environmental change. For example, Helfat *et al.* (2007:4) refined the prior definition by defining dynamic capability as "the capacity of a firm to purposefully create, extend, and modify its resource base" to match with the pace of environmental change. Accordingly, dynamic capabilities may sometimes be rooted in performing different tasks that alter the resource base, such as new product development, networking or alliance formation, creative managerial and entrepreneurial acts such as pioneering new markets (Kay, 2010:1211; Katkalo *et al*., 2010:1178). Referring from this argument, the firm's capacity to alter resource base, influences economic profitability (Helfat & Peteraf, 2009; Wiklund & Shepherd, 2003:1313). Superior dynamic capabilities enable firms to adapt quickly and effectively to a changing business environment, creating a stream of temporary competitive advantages over time (Teece *et al.,*1997:516).

The importance of dynamic capabilities on firm's performance prompted a need to understand how firm structures its resource base in a dynamic environment. It is from this context that some scholars have focussed their efforts on dynamic capabilities by relating with the firm processes of identifying and exploiting business opportunities and simultaneously aligning resources to cope with the dynamism nature of opportunities (Teece, 2007:1319). The ability of a firm to identify opportunities, depend on the flexibility and supporting environment within the firm and the individual capacities to learn and apply knowledge to identify, evaluate, and shape opportunities. The evaluation process examines the available possibilities to alter resource bundles of which the management choose the most feasible option.

The four theories, networking theory, learning theory, resource based view, and dynamic capability, explain sources of a firm's competitive advantage and persistent differential performance among firms. Based on the resource based view and dynamic capability; it is clear that sustainable competitive advantage requires firms to own or control difficult to replicate dynamic capabilities or resources (Katkalo *et al*., 2010:11755). While learning theory emphasises on continuous generation of new knowledge and utilisation as a source of competitive advantage, networking theory shows that resource constrained firms can access strategic resources and other capability from networking partners to enhance the firm's capability and be able to withstand challenges in the dynamic environment (Nieto & Santamaria, 2010:63). Critical examining these four theories emphasises on sources of competitive advantage for firms to cope with the fast changing of environmental conditions.

Looking at the nature of the contemporary business environment, for a firm to cope with the speed of environmental change it may requires an efficient system that provide continuous new market information, internalise, and utilise this information in response to environmental changes. While strategic management and entrepreneurship as proposed in previous studies are relevant constructs in dynamic environment, this study considers market orientation could add value in providing strategic market information of which entrepreneurial oriented firms could choose the most feasible opportunities reflecting current or latent customer needs. On the other hand, strategic management fit more on strategic management of resources and strategies to meet ends (Wiklund & Shepherd, 2003:1313). Combining these three constructs, it is likely to address the puzzle of combining opportunity seekingand advantage seeking behaviour that has proved to be a challenge in most firms. The next section highlights the observed conceptual gaps during the literature review and proposes the ways to bridge the gaps.

2.6 FILLING THE CONCEPTUAL GAP OF STRATEGIC ENTREPRENEURSHIP

Following the limitation of the previous studies on strategic entrepreneurship and the theories behind competitive advantage, the subsequent sections are set out to fill in the conceptual gap by proposing relevant variables considered appropriate for strategic entrepreneurship that fit both small and large firms. While this study acknowledge the effort of previous studies on the effort to search for appropriate constructs, it considers that the previous studies under represented the entrepreneurial orientation and underplayed the role of market orientation which are considered key for strategic entrepreneurship. Based on the networking theory, organisational learning theory and dynamic capability view, the two constructs entrepreneurial orientation and market orientation are both learning and dynamic which fit better to explain how firms strategically respond to the dynamic environment to enhance a sustainable competitive advantage. In this view, the next sections give brief accounts on how these two constructs can be useful to fill in the conceptual gap of the strategic entrepreneurship.

2.6.1 Extending The Dimensions Of Entrepreneurial Orientation

In a dynamic environment characterised by uncertainties and risks, a firm should be entrepreneurial oriented in order to develop opportunity seeking behaviour. Monsen and Boss (2009:74) present good explanation on how the concept of entrepreneurial orientation is used to examine strategic entrepreneurship. Based on Millers' (1983:771) conceptualization of entrepreneurial orientation with three dimensions namely innovation, risk taking, and pro-activeness selected the construct to examine various aspects of the model of strategic entrepreneurship developed by Ireland *et al.* (2003a:967).

The argument is based on the fact that the degree to which the firm acts entrepreneurially in terms of innovativeness, risk taking, and pro-activeness is related to dimensions of strategic management (Ireland *et al.,* 2001:53) of which the intersection/interface of strategic management and entrepreneurship form strategic entrepreneurship (Ireland *et al.,* 2003a:966). Furthermore, this is viewed as the content of strategy and as “contingent upon the characteristics of a firms’ strategic decision making and information management process – processes that broadly reflect strategizing activity” (Covin *et al.,* 2006:59). Moreover, Lumpkin and Dess (1996:137) shared a similar view that entrepreneurial orientation is the strategy making style, processes, and styles of a firm that engages in entrepreneurial activities. Based on these arguments Monsen and Boss (2009:74) considered the three dimensions of entrepreneurial orientation (i.e. innovation, risk taking and pro-activeness) as more elaborate and suggested to replace the concept of applying creativity and development innovation” which was originally conceptualized in a model of strategic entrepreneurship by Ireland *et al.* (2003a:967) (Figure 2.1).

While previous studies have presented empirical evidence on the relationship between entrepreneurial orientation and strategic entrepreneurship the conceptualisation of entrepreneurial orientation is based on Millers’ (1983:771) perspective with three dimensions (i.e. innovation, risk taking and pro-activeness). In such, this conceptualization does not capture the full spectrum of the entrepreneurial orientation, it fall short of two dimensions (i.e. competitive aggressiveness and autonomy) as extended and clarified by Lumpkin and Dess (1996:139). This study considers worth to examine all five dimensions (i.e. innovativeness, risk taking, pro-activeness, autonomy, and competitive aggressiveness) in order to understand the nature of the relationship between a complete set of dimension of the entrepreneurial orientation and strategic entrepreneurship.

There are several reasons to justify why it is necessary to examine the relationship between the individual five dimensions of entrepreneurial orientation and the strategic entrepreneurship instead of relying on the three dimensions examined before. Lumpkin and Dess (1996:137) and Rauch *et al*. (2009:762) pointed that the dimensions of the entrepreneurial orientation varies independently based on the context and the type of industry in which they are examined, which is the case for this study that involves three different industries namely manufacturing, retail, and service. In this view, it is logical to assume that each dimension of the entrepreneurial orientation has different effect in the firm's performance hence a need to examine them individually, rather than relying on the effects of three dimensions that may not necessarily represents the effects of the other two dimensions (i.e. autonomy and competitive aggressiveness). Lumpkin *et al.* (2009:63) examining and measuring an autonomy as a dimension of entrepreneurial orientation, the results on the content validity of the proposed measure of autonomy, confirmed that "autonomy is a separate dimension of the entrepreneurial orientation and not isomorphic with other dimensions of the entrepreneurial orientation". These findings suggest that autonomy as a dimension of entrepreneurial orientation is unique from other dimensions and is likely to have different effect in strategic entrepreneurship.

In dynamic and competitive environment, where opportunities are dynamic, autonomy is crucial because it provides independence and freedom to make timely decisions to seize and exploit opportunities. In the context of strategic entrepreneurship, autonomy is crucial on both opportunity seeking and advantage seeking behaviours that enhance competitive advantage (Ireland & Webb, 2007b:59). The uncertainties and risks presented by dynamic environment offer opportunities (Gifford, 2010). Through use of entrepreneurial mindsets, entrepreneurs are able to identify and exploit opportunities (Kuratko & Audretsch, 2009:1; McGrath & MacMillan, 2000:1). However, the process of opportunity identification and exploitation requires a series of decision making and sometimes involves trial and error especially if it is applicable in turbulent environment where events are less predictable due to fast change of environmental conditions (Teece, 2007:1322; Kuratko & Audretsch, 2009:7) and information asymmetries. In such environment, timely decisions that require autonomy is crucial, because failure to take timely decisions in a firm leaves a gap for rivals to seize opportunities.

2.6.2 Bridging Opportunity And Advantage Seeking Behaviours With Market Orientation

Focussing on opportunity seeking and advantage seeking behaviours as building blocks of the strategic entrepreneurship (Ketchen *et al.,* 2007:373), coupled with the role of market information in opportunity identification, it is clear that these three concepts are inter-related. Consider opportunity, as explained before, as a gap left in the market by those who are currently operating it (Wickham, 2006:433). In simple words, the gap left in the market is the unsaved products and or services in the market. With this understanding, opportunity seeking behaviour is the tendency to seek and generate market intelligence regarding products and or services offered in the market, competitors behaviours, technological dynamics, and other environmental factors that may affect current and future needs of customers (Ireland *et al*., 2009:28; Shane, 2003:23). The focus is to identify the gap left by current players in the market. This information leads to opportunity identification and it is crucial to the next stage of advantage-seeking that involves exploitation of opportunity. As such, market intelligence is important for both stages of opportunity seeking and the response to opportunity which is advantage seeking. In this case, for a firm to sustain competitive advantage, it must focus on market gaps left in the market to address the unfulfilled and latent customer needs by offering new products and services or in a different way from competitors.

Drawing from the above arguments, it makes sense to think beyond entrepreneurial orientation among antecedents of the strategic entrepreneurship. In this case the focus should be to identify the construct that contribute simultaneously to opportunity seeking and advantage seeking behaviours. While entrepreneurial orientation mentioned to foster opportunity seeking behaviour, it is criticized and not able to sustain competitive advantage. Morris *et al.* (2008:197) contend that “the application of entrepreneurial thinking (mindset) to the firm’s core strategy is primarily dealing with the following external questions: Where are the unfulfilled spaces in the market place? How can the firm differentiate itself on a sustainable basis? Where can we lead the customers”? Critical examination of these questions addresses the cultural and behavioural perspectives of the market orientation.

The market orientation contributes to form competitive advantage through customer orientation, competitor orientation and inter-functional coordination that encompasses information sharing within the firm (Narver & Slater, 1990:21). By continuous focusing on customers and competitors the firm is able to differentiate it-self from competitors and offer superior or different products and or services to customers on a sustainable basis. In this case, it implies that market orientation generate market information that leads to opportunity identification, products and or services innovation. Likely, strong entrepreneurial orientation is more of response to pursuit of opportunities through innovation (Baker & Sinkula, 2009:445).

There is a reason to believe that the two constructs, market orientation and entrepreneurial orientation are closely related and should be studied together in strategic entrepreneurship. Baker and Sinkula (2009:457) posit that "an entrepreneurial orientation not grounded in a strong market orientation may lead to innovations without the customer appeal". On the other hand, a strong market orientation without a strong entrepreneurial orientation may facilitate a focus on customer satisfaction, but not necessarily an ability to aggressively pursue new market opportunities. This may lead to an overemphasis on incremental innovation or worse, an emphasis on mimicking the successful product, customer service, and administrative support systems of others, rather than the pursuit of new differentiating alternatives".

2.7 CHAPTER SUMMARY

This chapter presented the impact of dynamic environment on a firm's performance and the efforts made by previous studies to devise mechanisms of a firm's response to tides of continuous environmental changes. It reviewed the evolution of strategic entrepreneurship as a widely accepted response mechanism to create a firm's sustainable competitive advantage necessary to develop superior performance and create wealth. In the course of review, it is clear that although strategic entrepreneurship is widely accepted as an appropriate mechanism to respond to challenges posed by the environmental change, the domain is still at an infancy stage and has not developed robust constructs of its own. It emerged as an interface or intersection of entrepreneurship and strategic management. It is from this context, strategic entrepreneurship suffers the conceptual gap. Other scholars have indicated their concern that it is not clear whether strategic entrepreneurship is a subfield within entrepreneurship discipline, a subset of strategic management, or corporate entrepreneurship, or a separate field.

The review shows that strategic entrepreneurship fosters simultaneous competitive-seeking behaviour (central to entrepreneurship) and advantage seeking behaviour (central to strategic management). However, in practice, the firm faces challenges to simultaneously combine opportunity seeking behaviour and advantage seeking behaviour and previous studies have reported that small firms are more skilled on opportunity seeking behaviours than large firms, which in turn are well skilled on advantage seeking behaviours. Amongst other reasons for this is that advantage seeking is responsible for sustaining competitive advantage that is attained through strategic management of resources during exploitation of the opportunities. Since small firms are confronted by resources scarcity they lack this capacity. For large firms fail to continuously identify new opportunities because of technological inertia, bureaucracy in decision making, internal politics/fighting, and other related factors. In this view, previous studies have treated the fusion of strategic management and entrepreneurship as a set of contested ideas rather than settled issue to open up more innovative studies in the field to further our understanding.

Monsen and Boss (2009:74) reviewed the model of strategic entrepreneurship developed by Ireland *et al.* (2003a:967) that fit both small and large firms, and argued that the concept of “applying creativity and developing innovation” is more elaborated by the entrepreneurial orientation based on Miller’s (1983:771) conceptualisation of three dimensions: innovation, risk taking, and proactiveness. Based on this argument, this study view it as under representation of the entrepreneurial orientation construct as clarified and extended by Lumpkin and Dess (1996) to include five dimensions. The review indicates that individual dimensions of entrepreneurial orientation varies independently and have different effects in the firm performance depending on the context and industry in which they are examined. The argument is valid for this study and considers it necessary to examine all five individual dimensions of entrepreneurial orientation instead of relying on three dimensions examined before by Monsen and Boss (2009) which may not necessarily represent the influence of other two dimensions: autonomous and competitive aggressiveness, extended by Lumpkin and Dess (1996).

Regarding the challenge of attaining simultaneous opportunity-seeking and advantage-seeking behaviours by both small and large firms, this study suggests that previous studies underplayed the role of market orientation in strategic entrepreneurship. By incorporating the market orientation in the strategic entrepreneurship model coupled with the full spectrum of the dimensions of entrepreneurial orientation will enrich the model of strategic entrepreneurship that is geared towards fostering simultaneous opportunity-seeking and advantage-seeking behaviours. Market orientation in this study is thought appropriate because it will enhance continuous generation of market intelligence which aid to identify opportunities and anchor a strong entrepreneurial orientation to these opportunities that are most likely to be well received by customers.

To accommodate firms with scarce resources, this study considers networking will allow such firms regardless of their sizes to complement their resource needs from networking partners. Viewing this way, the strategic entrepreneurship model will fit both small and large firms and enable them to simultaneously acquire opportunity-seeking and advantage-seeking behaviours that allow them to develop superior performance.

In view of the above, the next chapter presents in details how SME’s apply the constructs: entrepreneurial orientation, market orientation and networking as dimension of the strategic entrepreneurial response to face challenges in competitive and dynamic environment.