

Strategic Entrepreneurial Response of Small and Medium Enterprises in Developing Economies

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Abstract

This study examined the influence of three dimensions of strategic entrepreneurial response, namely market orientation, entrepreneurial orientation and networking capability on SME performance necessary for firms to face challenges in competitive environments. The research confirmed positive influence of the three dimensions of strategic entrepreneurial response (SER), namely market orientation (MO), entrepreneurial orientation (EO) and network capabilities (NWC) on small and medium enterprise (SME) performance. The dimensions of SER explained a significant amount of variance (50.1%) in SME performance, with the largest amount (27.1%) of variance accounted for by MO. The findings suggest that emphasis on MO is a firm's strategic choice to generate strategic information which forms a seedbed of opportunities from which entrepreneurial oriented firms identify and proactively seize to build competitive advantage. Contrary to previous studies, which emphasized that opportunity seeking behaviour is a domain of EO, this paper argues that MO is pivotal construct to the SER. This paper views EO as more driven by an advantage seeking behaviour rather than opportunity seeking behaviour as conceptualised before. With these findings, this paper suggest that sustained market orientation and entrepreneurial orientation cultures build opportunity seeking and advantage seeking behaviours, respectively crucial to create and sustain SME performance.

Keywords: competitive advantage, strategic entrepreneurship, trade barrier, open market economy, market orientation, entrepreneurial orientation, networking capability

1. Introduction

The open market economy has introduced new operating conditions, markets, and challenges in developing economies like Tanzania, something that entrepreneurs and owners of small and medium enterprises' (SMEs') must consider and respond to in order to remain viable and competitive (Morris, Kuratko, & Covin, 2008). The removal of trade barriers has increased internationalization of markets for sales and purchasing, subsequently enhancing entry of new competitors into formerly protected domestic markets (Hitt, Ireland & Hoskisson, 2007). These dynamics have also caused changes in customers' preferences due to exposure to new brands. In this regard, involvement of SMEs in the open market is not a matter of choice; it is a question of struggle for survival, regardless of whether SMEs operate in global or local markets.

While there is a growing consensus among scholars that strategic entrepreneurship (SE) is an intersection of entrepreneurship and strategic management and it is appropriate for firms to address most challenges posed by competitive environments (Kuratko & Audretsch, 2009; Ireland, Hitt & Sirmon, 2003). Other scholars observed that firms face challenges to simultaneously combine opportunity seeking and advantage seeking behaviours (Ireland & Webb, 2007) as a condition to build and sustain competitive advantage. Among the reasons advanced to explain this challenge is the conceptual gap in SE, which implies that the constructs chosen to explain SE may not be adequate to enhance simultaneous opportunity seeking and advantage seeking behaviours. Building on this argument, Schindehutte and Morris (2009) suggested that SE is more than the intersection of entrepreneurship and strategic management and treat this fusion as a contentious idea. This suggestion opens up opportunities for further studies to examine other constructs that may enhance simultaneous opportunity seeking and advantage seeking behaviours to sustain competitive advantage.

Wickham (2006) pointed that opportunity is the gap left in the market by those who are currently operating it. This may imply that opportunity seeking behaviour is a tendency to continuously identify gaps in the market. A thorough analysis of these gaps creates a pool of opportunities, which set a context for entrepreneurial oriented firms to identify and exploit. Previous studies tend to agree that entrepreneurship is associated with the identification and exploitation of opportunities (Shane, 2003). Recent studies using discovery theory support the argument that opportunities exist when competitive imperfect resulting from information asymmetries exist in the market (Alvarez & Barney, 2007). This implies that for a firm to cope in a competitive environment, it requires a system to collect strategic information, analyse and respond in order to fill the identified gaps.

In this context, this paper argues that market orientation (MO) which is involved in the generation of market intelligence pertaining to customers, competitors and dissemination of market intelligence within the firm (Narver & Slater, 1990) is well placed to enhance opportunity seeking behaviours. EO on the other hand, through the exploitation of opportunities is appropriate to build and sustain competitive advantage crucial to attain a firm's performance (Li, Zhao, Tan & Liu, 2008). With the understanding that SMEs are resource constrained (Nieto & Santamaria, 2010) compared to large firms, networking may enable SMEs to access and utilise resources they need but do not own to build firms' competitive advantage (Dickson & Weaver, 2011). While the argument on the benefits of networking is compelling, recent studies have opened a debate on the benefits of networking. Hitt, Ireland and Hoskisson (2009) argue that networking may not always be beneficial. Supporting this contention, Gulati, Nohria and Zaheer (2000) pointed out that networking may lock benefits on unproductive activities and end up wasting firms' resources. It is from the same arguments this paper considers that networking capability (NWC) which is the ability to initiate and sustain beneficial relationships among networking partners is the preferred construct in this study over a mere networking.

In this view, this paper focuses to examine how the dimensions of strategic entrepreneurial response (SER), namely MO, EO and network capabilities (NWC) can be used to combine opportunity seeking and advantage seeking behaviours. This paper argues that dimensions of SER are well placed to address the challenge of simultaneous opportunity seeking and advantage seeking behaviours that sustain SME performance. The argument is driven by the fact that MO is engaged in the generation of strategic market information which leads to opportunity identification, while EO, through pro-active behaviour and innovation exploits the most feasible opportunities aiming at addressing customers' needs. Since MO and EO are resource demanding strategies (Covin & Slevin, 1991) and SMEs are resource constrained (Nieto & Santamaria, 2010; Verhees & Meulenber, 2004), NWC is thought to be appropriate to initiate, and sustain relationship that enables access and utilization of strategic resources to complement resources and capability needs of a firm.

The rest of paper is organized as follows: the literature review and hypotheses development that clarifies the theoretical background of the SER and how it influences the SME performance. This guides the formulation of hypotheses in this paper. The second section presents the methodology used to collect and analyse data, which precedes the findings presented in section three. The fourth section discusses the implication of the findings, highlights the limitations of the study and provides recommendations on the way forward.

2. Literature Review and Hypotheses Development

2.1 Concept of Strategic Entrepreneurial Response

The concept of strategic entrepreneurial response is developed based on the interaction between firms and the environment in which they operate, and the way firms' respond through both opportunity seeking and advantage seeking behaviours to create competitive advantage and sustain performance (Figure 1). Environmental change creates opportunities (Ireland, 2007; Ketchen, Ireland & Snow, 2007) in which firms need to have a system to monitor factors influencing changes in technologies, regulations, competitors' and customers' behaviours and respond with a clear strategy to address these changes while sustaining competitive advantage essential for the firms' performance. In this view, this study conceptualise SER with three dimensions namely MO, EO and NWC to be a possible strategic response in competitive environment to enhance SME performance.

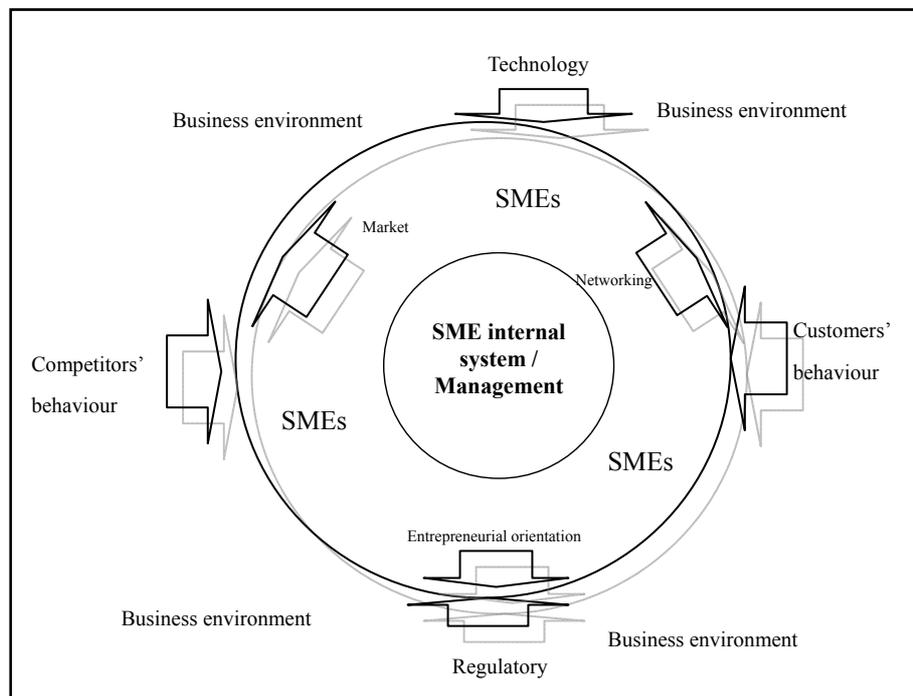


Figure 1. Interaction of SMEs and the environment

MO being one of the dimensions of SER is considered crucial to monitor customers' and competitors' behaviour and other factors such as technology and regulations that may influence change in the business environment change (Figure 1). In other words, market oriented firms scan the environment to identify unexploited market gaps or opportunities resulting from environmental change; while entrepreneurial oriented firms respond by exploiting existing or created opportunities to build competitive advantage, which leads to a firm's performance (Schindehutte et al., 2008). Thus MO is likely to create a context for opportunities through which entrepreneurial oriented firms identify and exploit market gaps in order to develop the firms' competitive advantage. It is further argued that sustaining MO and EO behaviours are likely to create opportunity seeking and advantage seeking behaviours in firms. For resource constrained firms like SME as reversed to large firms which are relatively owning adequate resources; networking might account to complement their resources and capabilities in order to achieve and sustain performance.

Some scholars have, however, indicated that networking may not always be beneficial. Aldrich and Reese (1993), for example, were unable to find any evidence linking an entrepreneur's use of networkings to business performance. Similarly, Cooper, Gimeo-Gascon and Woo (1994) were also unable to find a significant relationship between the use of professional advisors and a firm's performance. Walter et al. (2006) argue that value creating organizational ties between organizations do not simply exist or emerge. The transfer of know how between network partners is fraught with ambiguity. It is therefore compelling to argue that firms that wish to benefit from networking should build capabilities to initiate, sustain and utilize inter-organizational relationship with various external partners (Walter et al., 2006). This suggests that for a firm to benefit from networking they must have capabilities on partners knowledge to be able to identify relevant partners with strategic resources and capabilities to complement firm's requirement, relational skills to be able to establish and sustain beneficial relationship, ability to share strategic information within the firm to be able to collectively focus firms' energy on a strategic point, and finally the ability to coordinate resources for effective and efficient use of available resources. This argument reflects the four dimensions of NWC namely relational skills, internal communication, coordination and partners' knowledge (Kale, Sing & Perlmutter, 2000). The mentioned aspects of NWC are crucial for resource constrained firms if they are to optimize benefits of networking.

Drawing on the above it is postulated that the dimensions of SER namely MO, EO and NWC are appropriate to foster SME performance. SME performance is crucial at a time when SMEs face steep competition due to an open market economy. The next section explains the influence of individual dimensions of SER on SME performance and presents the hypotheses guided this study.

2.1.1 Market Orientation and SME Performance

MO is a composite construct with three dimensions namely customer orientation, competitor orientation and inter-functional coordination (Narver & Slater, 1990). A customer-oriented firm places customer satisfaction at the centre of each of its business decisions. According to Kohli and Jaworski (1990) customer's orientation is a posture taken by a firm to support its sales and firm-customer relations in which staff focus on helping customers to meet their long-term needs and wants. Business strategies that tend to reflect a customer orientation might include: developing a quality product appreciated by consumers; responding promptly and respectfully to consumers' complaints and queries. In this view, management and employees of the firm align their individual and team objectives around satisfying and retaining customers. Despite the fact that customer orientation is crucial for customers' satisfaction and retention, it may not necessarily be adequate to sustain firm's performance. For the sustainability of firm's performance, customer orientation might be complemented by the competitors' orientation to be able to learn from competitors' strength, and weaknesses for firms' advantage.

Narver and Slater (1990) pointed that competitor orientation focuses on the analysis of competitors' information in terms of core activities, successes, losses, similarities, and differences, in the effort of setting up a differential business strategies among surrounding rivals. Competitor orientation, as a dimension of MO, means that a firm understands the short-term strengths and weaknesses and long-term capabilities and strategies of rivals and take advantage of doing things differently. Viewing this way, it may imply that competitor orientation is even more crucial in open market economy in which rivals' entry and exist is seldom regulated. In the open market environment rivals are free to enter and leave any market with minimal or no restrictions (Verhees & Meulenbergh, 2004). In this case customer's and competitors' orientation is crucial to monitor the dynamics on the changes of customers and competitors behaviour so that constantly the firm offers value products to customers at the same time apply superior strategies over the rivals. With the understanding that customer and competitor orientation involves collection of strategic information, this study argues that the strategic information is only useful shared within the firm among workers so that a firm is able to develop a response mechanism to address customers and competitors challenges. This can be attained through inter-functional coordination that involves communication and sharing of information and resources, and integration and collaboration of different functional areas/departments within the firm (Walter *et al.*, 2006) with the objective of offering value products to customers and developing superior strategies over the rivals.

In dynamic and competitive environments in which technologies, regulations, customer behaviours and competitor strategies change frequently, information tracking systems are crucial in alerting entrepreneurs to cope with these changes (Li, Sun, & Liu, 2006). The markets signal changes in customer and competitor behaviour, give clues as to what value is needed in the market, when it is needed, and how it should be delivered (Schindehutte *et al.*, 2008). This is relevant especially in developing and emerging economies such as Tanzania, which is confronted by dynamic forces as a result of an open market economy. Market oriented firms detect, assimilate and respond to market signals which form a potential source of market gaps or opportunities. The literature has established a clear correlation between MO and a firm's performance. For example, Li *et al.* (2008) and Zhou, Yim, and Tse (2005) expressed a similar opinion that MO facilitates technical based innovation which in turn helps to improve a firm's performance. These arguments lead to the formulation of hypothesis 1.

H₁: Market orientation has positive influence in SME performance.

2.1.2 Entrepreneurial Orientation and SME Performance

The term "entrepreneurial orientation" has been used to refer to the strategy-making processes and styles of firms that engage in entrepreneurial activities. The literature provides equivocal results on the relationship between EO and SME performance. While some studies reported a positive relationship between EO and SME performance (Li *et al.*, 2008; Schindehutte *et al.*, 2008; Keh *et al.*, 2007), others have failed to establish this relationship or find only a weak relationship (Walter *et al.*, 2006; Lumpkin & Dess, 2001). The inconsistency of the results has been associated with the context and the type of industry in which the research is carried out (Lumpkin & Dess, 1996). Lumpkin and Dess (2001) observed that dimensions of EO such as competitive aggressiveness are more evident in mature markets as a strategic response to defend firm's competitive advantage over rivals. This paper examines the influence of EO in SME performance in developing economies such as that of Tanzania, characterized by the shift from protective policies to an open market economy where the private sector is encouraged to take the lead in the economic development. This environment is considered a growing market, where many emerging opportunities exist in which entrepreneurial oriented firms through proactive behaviour can take the advantage to exploit and enhance the firm's performance. These arguments lead to the second hypothesis.

H₂: Entrepreneurial orientation has positive influence in SME performance.

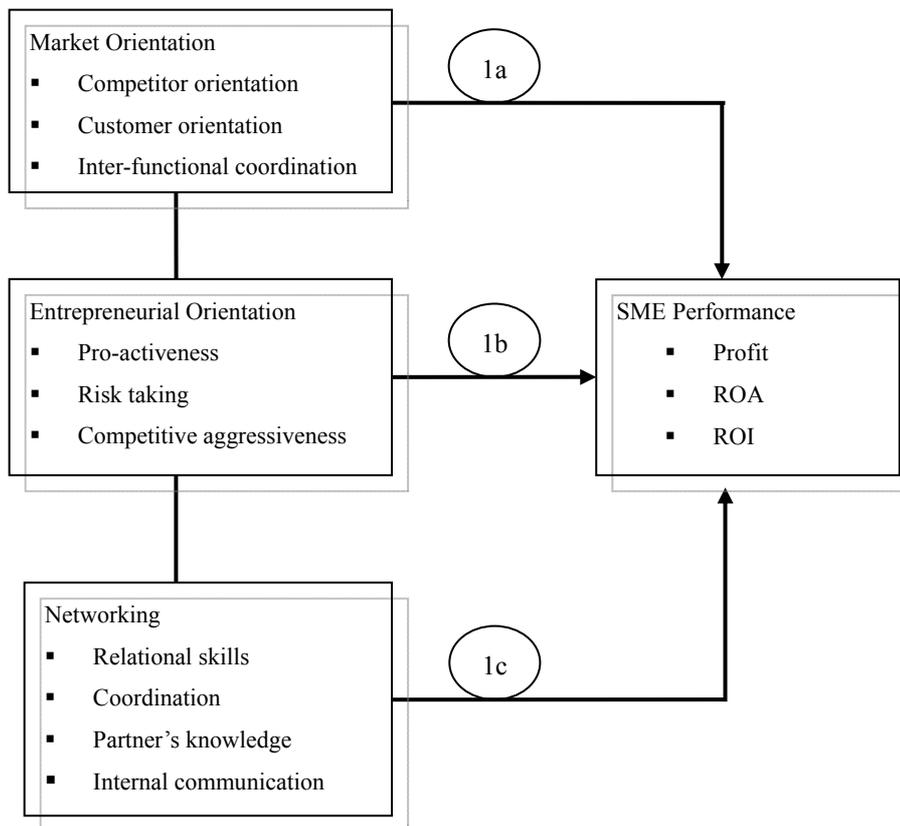


Figure 2. SER dimensions and relationships to SME performance

2.1.3 Networking Capability and SME Performance

Networking has long been associated with the sharing of resources, capabilities, technologies, and access to markets (Dickson & Weaver, 2011; Welter & Smallbone, 2011; Nieto & Santamaria, 2010). This strategy is important especially for firms like SME's which are confronted by resource scarcity. The literature supports the argument that networking allows firms to access resources they do not own or control, but are necessary for a firm's competitive advantage (Song et al., 2010; Dickson, Weaver & Hoy, 2006; Gronum, Verreynne, & Kastle, 2012). Researchers also acknowledged that networking is crucial in sharing risk and resources in capital intensive ventures or in an environment with weak regulatory frameworks as found in Tanzania where entrepreneurs feel less protected (Tang & Murphy, 2012).

However, Hitt et al. (2007) argues that not all networking is successful in fact most attempts at networking fail. Some of the reasons advanced for the failure of networking are: incompatible partners, lack of trust and conflicts between partners. This study considers that to address these challenges firm must have partners' knowledge, relational skills, coordination and internal communication which are essentially dimensions of NWC (Kale et al., 2000). The paper includes the NWC construct as part of the three dimensions of SER. Coordination being the first dimension of NWC, is necessary in ensuring proper allocation of resources for the most productive intervention. Relational skills, the second dimension of NWC, are essential to establish trust among networking partners in order to facilitate long term exchanges of strategic resources. Internal communication involves the sharing of knowledge with the organisation, which helps to create a learning environment for workers within the organization and finally the partners' knowledge enables the firm to identify potential partners with relevant resources and capabilities to complement the resource and capability needs of the firm. Based on the above arguments this paper assumes that NWC is an appropriate strategy for resource constrained firms to attain performance. It is in this context that hypothesis 3 is advanced.

H₃: Networking capability has positive influence in SME performance.

3. Method

The Method section describes in detail how the study was conducted, including a brief description of the research settings, research design and sampling procedures, conceptual and operational definitions / measurement of the variables used in the study and finally presents data analysis to show which statistical techniques were applied to analyse data that respond to a specific hypothesis.

3.1 Research Settings

The United Republic of Tanzania (URT), located in East Africa came into being on 26 April 1964 as the union of two sovereign states namely Tanganyika and Zanzibar (Mwakikangile, 2010, p. 11). The Tanganyika that got independence in 1961 is the mainland and Zanzibar that got independence in 1963 is formed by the two isles; Unguja and Pemba, both located in the Indian Ocean. Although Tanzania is formed by the mainland and two islands, this study focused in the mainland side, specifically three administrative regions namely; Morogoro, Dar es Salaam and Iringa.

Tanzania since independence under the leadership of the first President Julius K. Nyerere followed “*Ujamaa Political Ideology*” which is known as African socialism. Between 1961 and mid 1980’s before structural adjustment the government was heavily involved in doing business and provided free social services to its citizens. During this era the private sector was not given much space to do business (Olomi, 2009). It was only after mid 1980’s when Tanzania adopted structural adjustment that led to the open market economy that the private sector was encouraged for the first time to participate in business and contribute to the country’s socio-economic development. The early restrictions on the private sector to participate freely in economic activities had a lasting negative impact on entrepreneurial culture (Mbeki, 2005). The effect is still felt today in the sense that firms face severe competition in the open market economy yet cannot compete with their rivals.

3.2 Research Design and Sampling Procedure

This paper examined the influence of dimensions of SER (that is MO, EO, and NWC) in SME performance. A cross sectional research design was used and stratified random sampling was employed to sample 291 respondents drawn from three strata of industry namely manufacturing, service and retail in SMEs in Tanzania with fewer than 100 employees. The criteria for business size categorization were those set up by the Ministry of Industry and Trade in Tanzania that uses the number of employees and capital investment as indicators.

3.3 Measurements

3.3.1 Market Orientation

The measurement of MO used multi-items measures adopted from Li *et al.* (2008), which were derived from Narver and Slater’s (1990) framework. The measurement items included customer orientation, competitor orientation and inter-functional coordination. Customer orientation was measured using six items, competitor orientation was measured by four items and finally, the inter-functional coordination was measured using five items. Although Li *et al.* (2008) used a seven point Likert scale, this paper adopted a five point Likert scale which has proved useful in measuring different variables relating to MO. The reason for using a five point scale was to make it easier for the respondents to discriminate their opinions.

3.3.2 Entrepreneurial Orientation

Previous studies on EO adopted measurements of the concept developed by Covin and Slevin (1989). The measurement captured three dimensions of EO namely innovation, risk taking and pro-activeness, which originated from Khandwalla’s (1976 / 1977) and Millers and Friesen’s (1982) conceptualisation. Lumpkin and Dess (1996) clarified the concept of EO and added two more dimensions, namely autonomy and competitive aggressiveness. Covin and Slevin (1989) treated pro-activeness and competitive aggressiveness as identical dimensions contrary to Lumpkin and Dess (2001) who considered them to be distinct dimensions.

Drawing on previous studies, several scholars have developed measures for the EO construct (Kraus *et al.*, 2005; Le Roux, Pretorius & Milard, 2004). However, Kraus *et al.* (2005) clarified EO by adding two more dimensions namely learning orientation and achievement orientation from previous dimensions identified by Lumpkin and Dess (1996); Khandwalla (1976 / 1977); and Miller and Friesen (1982). The variation in the numbers of EO dimensions identified by different scholars has influenced the selection of dimensions of EO employed in different studies to examine the relationship with firms’ performance. For example, some scholars have opted to use only three dimensions namely innovation, risk taking and pro-activeness (Green, Covin & Slevin, 2008). Other scholars have used the five dimensions proposed by Lumpkin and Dess (1996) namely autonomy, risk taking,

innovativeness, pro-activeness and competitive aggressiveness. For the purpose of this paper, EO was measured using five dimensions namely; innovation, risk taking, pro-activeness, competitive aggressiveness and autonomy using a five point Likert scale.

3.3.3 Networking Capability

The NWC construct was captured using measurements developed by Walter *et al.* (2006), which were derived from Keller and Holland (1975) and Mohr and Spekman (1994). The identified measurement items of NWC includes coordination, relational skills, partners' knowledge, and inter communication. The coordination activities used six items of measurement, which assessed synchronization, planning and controlling activities in both within and beyond firms' boundaries (Mohr & Spekman, 1994). The relational skills used four items' to evaluate the degree to which networking partners are able to nurture and shape close relationships. Partners' specific knowledge used four item measures to capture the information which demonstrates the extent to which the networking partner understands the potentials and constraints of the second party. Internal communication applied five item measures to show how the acquired information is disseminated within the firm. The business owners/managers were asked to rate the extent of their firms' compliance with a given statement based on the measurement items for each dimension.

3.3.4 Performance

The multidimensional nature of performance suggests the integration of different performance measures in empirical studies (Wolff & Pett, 2006) to capture different aspects of SME performance. This paper used profit growth, return on asset (ROA) and return on investment (ROI) to measure performance (Figure 2). Knowing that SME owners / managers are reluctant to offer financial information indirect questions were asked which were later used to compute profit growth, ROA and ROI. For example, respondents were asked to indicate the amount of sales, total costs incurred in their businesses and the total investment costs. This information was later used to compute firms' profit, ROA and ROI using equation 1, 2 and 3, respectively.

$$Profit = (Gross\ Income - Total\ Cost) \quad (1)$$

$$ROA = \frac{Net\ Income}{Average\ Total\ Assets} \times 100 \quad (2)$$

$$ROI = \frac{Net\ Income}{Investment\ Cost} \times 100 \quad (3)$$

3.4 Data Analysis

The Pearson correlation was used to examine the relationship among variables of interest. The sequential multiple regressions examined the influence of dimensions of SER and SME performance to test hypothesis 1, 2 and 3. However, before the Pearson correlation and multiple regressions analysis, data was tested for compliance of assumptions to ensure credibility of results. The assumptions examined were normality, homoscedasticity, linearity and independent error. As a matter of compliance with the regression assumptions of linearity and homoscedasticity, data was natural log transformed to enable the generalisation of findings across the population of interest.

4. Results

Table 1 summarises the distribution of demographic variables namely type of industry, firm size, and level of education of owner / manager. With reference to the type of industry; retail industries represented 47.01 percent of the sample, followed by 34.78 percent for the manufacturing industry. Regarding firm size, 66.32 percent of the total sample was small businesses and 13.75 percent of the total sample was medium businesses. The level of education of owners/managers indicated that 48.11 percent had attained at least diploma/or graduate levels of education.

Table 1. Demographic data

Demographic Variable	Frequency	Percentage (%)
Type of Industry		
Retail	137	47.01
Service	53	18.21
Manufacturing	101	34.78
Total	291	100.00
Firm Size		
Micro	50	17.18
Small	193	66.32
Medium	40	13.75
Large	8	2.75
Total	291	100.00
Level of education		
Primary School	66	22.34
Secondary School	85	29.55
Diploma & Graduate	140	48.11
Total	291	100.00

The Pearson correlation examined the relationship among test variables and SME performance measured in natural log Profit (LnProfit), natural log return on asset (LnROA) and an overall SME performance.

Tables 2. Pearson correlation matrix

Test variables	Test Variables							
	1	2	3	4	5	6	7	8
Type of industry								
Firm size	-0.412**							
Level of education	-0.343**	0.410**						
Market orientation	-0.073	0.008	0.322**					
Entrepreneurial orientation	-0.038	0.079	0.214**	0.340**				
Networking capability	-0.047	0.096	0.249**	0.305**	0.277**			
SME Performance	-0.045	-0.167**	0.338**	0.697**	0.336**	0.276**		
LnProfit	-0.178**	0.140*	0.482**	0.779**	0.408**	0.374**	0.881**	
LnROA	0.023	-0.272**	0.258**	0.605**	0.291**	0.213**	0.963**	0.765**

**Correlation is significant at the 0.01 level (2 tailed).

*Correlation is significant at the 0.05 level (2 tailed).

Table 2 shows that firm size is significantly negatively correlated with SME performance ($r = -0.167^{**}$). The level of education of owners or managers in SMEs recorded significantly positive correlation with SME performance ($r = 0.338^{**}$), LnProfit ($r = 0.482^{**}$) and LnROA ($r = 0.258^{**}$). Consistently, SME performance recorded positive correlation with MO ($r = 0.697^{**}$), EO ($r = 0.336^{**}$) and NWC ($r = 0.276^{**}$). Interestingly, results also show that the levels of education of owners / managers were significantly positively correlated with firm size ($r = 0.410^{**}$).

Examining the influence of dimensions of SER on SME performance to test hypotheses 1, 2 and 3 the sequential multiple regression model was employed. Pallant (2011) suggest that beta (β) in multiple regression presents among other things the nature of relationship between independent and dependent variables and indicate the amount of contribution an independent variable makes to the dependent variable.

Table 3. Parameter Estimates (β) and model parameters for dimensions of SER

	Models		
	Model 1	Model 2	Model 3
Dimension of Entrepreneurial Orientation			
	Parameter Estimates (β)		
Networking capability	0.276**	0.200**	0.061ns
Entrepreneurial orientation		0.382**	0.104*
Market orientation			0.645**
Model Parameters			
R ²	0.076	0.230	0.501
F – ratio	23.015	38.596	93.143
Adjusted R ²	0.073	0.220	0.496
R ² Change	0.076	0.154	0.271
F-Change	23.015	49.264	195.879
Sig. F-Change	0.000	0.000	0.000

Model 1: Predictors: Networking capability;

Model 2: Predictors: Networking capability, Entrepreneurial orientation;

Model 3: Predictors: Networking capability, Entrepreneurial orientation, Market orientation.

Dependent variable: SME performance;

Table 3 shows that the three dimensions of SER namely MO ($\beta = 0.645^{**}$), EO ($\beta = 0.382^{**}$) and NWC ($\beta = 0.276^{**}$) account for a significant positive influence on SME performance. . When only NWC was considered, model 1 explained a significant amount of variance in SME performance $R^2 = 0.076$ (7.6%), $F = 23.015$, $p < 0.01$. When EO was added, model 2 explained $R^2 = 0.230$ (23.0%) of variance. After controlling the NWC the R^2 change shows that EO alone explained 0.154 (15.4%) of variance in SME performance with a relatively higher amount of variance compared to NWC. Model 3 on the other hand showed that when all three dimensions of SER were included, the model explained $R^2 = 0.501$ (50.1%), $F = 93.143$ of variance in SME performance. The R^2 change = 0.271 (27.1%), F -change = 195.879, $p < 0.01$ represents the amount of variance explained in SME performance by MO after controlling the amount of variance explained by NWC and EO. Generally these findings suggest that the individual dimensions of SER recorded significant amount of variance in SME performance supporting hypotheses 1, 2 and 3.

5. Discussion

This paper examined the influence of dimensions of SER in SME performance. The results confirmed positive influence of dimensions of SER (MO, EO and NWC) on SME performance, thus supporting hypotheses 1, 2 and 3. The positive influence of MO and SME performance is consistent with previous results presented in the literature (Kara *et al.*, 2005; Li *et al.*, 2008). Given the competitive environment in Tanzania resulting from an open market economy, these findings suggest that in competitive environments firms tend to be more market oriented in order to generate market intelligence that helps in strategic renewal necessary to create and sustain competitive advantage.

Strategic market information increases the chance of firms to discover and or create new opportunities due to a clear understanding of the problem facing customers and the actual market value required to fill the gap. Wicklund and Shepherd (2003) emphasized earlier that MO is a source of innovation which is associated with a firm's performance. These arguments suggest that MO is a source of opportunities, sustaining a MO culture in firms is likely to build opportunity seeking behaviours, which is a key pillar of strategic entrepreneurship.

The positive relationship between EO and SME performance supports previous literature that reported similar results (Keh *et al.*, 2007; Li *et al.*, 2008). Schindehutte *et al.* (2008) associated strong EO with advantage creating capability, resulting from exploitation of opportunities through innovation, which subsequently enhances a firm's performance. The literature has linked exploitation of opportunity with advantage creation (Alvarez & Barney, 2002; Ketchen *et al.*, 2007). The argument is supported by the fact that pro-active behaviour associated with the EO is the response to opportunity with the anticipation to satisfy market demands (Lumpkin *et al.*, 2009; Monsen & Boss, 2009). In the process of addressing market demands, the entrepreneur bears the risk and develops innovation to exploit opportunities to fill the market gaps. This process creates a competitive advantage over competitors of which in intense competition, firms adopt competitive aggressive posture as a response to competitors' actions in the effort to protect already developed competitive advantage (Lumpkin & Dess, 2001).

Viewing EO from this perspective, this paper argues that a sustained EO culture in a firm is likely to create “advantage seeking” behaviour essential to sustain firms’ competitive advantage.

The positive relationship between NWC and SME performance suggests that NWC is a strategic posture for a resource constrained firm to complement its resource needs to attain optimum performance. However, this argument needs qualification. Further research to examine if there are any variations in terms of benefits gained through NWC between resource rich and resource poor firms is necessary. The paper did not isolate the two categories of firms based on the amount of resources controlled or possessed. Contrary to previous studies which reported that networking may not always be beneficial to firms (Hitt *et al.*, 2009; Gulati *et al.*, 2000) these findings suggest that firms with the ability to create networking capabilities are likely to benefit from networking relationships. This argument is based on the fact that NWC enables firms to identify potential partners with relevant resources and capabilities to complement resources and capability needs, build trust among networking partners to allow exchange of strategic resources to take place, enhance efficient utilisation of resources through coordination and share strategic information that provides a learning ground for networking partners to build a competitive advantage that enhances performance.

Examining the amount of variance explained in SME performance by the dimensions of SER, findings indicated that MO, EO, and NWC accounted for 27.1 percent, 15.4 percent and 7.6 percent of total variance, respectively. With the significant F-change at $p < 0.01$ for the three models, these findings suggested that all three dimensions of SER (MO, EO and NWC) accounted for a significant amount of variance in SME performance supporting hypotheses 1, 2 and 3. With the MO accounting for a higher amount of variance in SME performance compared to EO and NWC it may imply that market oriented firms generate strategic information which forms a pool of market gaps (opportunities), which when successfully exploited by entrepreneurial oriented firms, can build a firm’s competitive advantage that enhance performance. It is thus concluded that a firm’s ability to execute MO and EO strategies simultaneously, are likely to create opportunity seeking and advantage seeking behaviours necessary for strategic entrepreneurship. However, the execution of MO and EO strategies requires resources. This paper suggests that resource constrained firms may consider acquiring and utilising NWC strategy to allow the exchange of strategic resources and information among networking partners.

This paper contributes to the strategic entrepreneurship literature in several ways. Firstly, it explains how firms can simultaneously combine opportunity seeking and advantage seeking behaviours using dimensions of SER to attain a firm’s optimum performance, which is a huge challenge for most firms. Secondly, in view of the continuous increase of environmental turbulence, this paper identifies the MO as the best predictor to explain SME performance in a competitive and dynamic environment. These findings are useful to researchers, policy makers, and practitioners intending to improve SME performance. A firm’s performance is vital for SMEs to attain a competitive edge in order to face challenges posed by a competitive environment.

6. Conclusion

This paper examined the influence of three dimensions of SER namely MO, EO and NWC for a firm to combine opportunity seeking and advantage seeking behaviours essential for a firm to attain and sustain SME performance in a competitive environment. The results provide empirical evidence that the dimensions of SER account for a significant amount of variance in SME performance, with the MO accounting a higher amount of variance followed by the EO. These findings suggest that given the competitive environment in developing economies like Tanzania where events continuously change, emphasis on MO is a firm’s strategic choice to be able to generate strategic information. The acquired information may form a seedbed of opportunities from which entrepreneurial oriented firms identify and proactively seize to build competitive advantage.

Contrary to previous studies, which emphasized that opportunity seeking is a domain of EO (Ireland & Webb, 2007; Ireland *et al.*, 2003), this paper argues that previous studies underplayed the role of MO in opportunity seeking. This study views EO as more driven by opportunity exploitation through proactive and innovative behaviours, which is more of advantage seeking than opportunity seeking behaviours. In this view, MO forms a context in which entrepreneurial oriented firms identify and exploit opportunities to build firm’s competitive advantage. The findings suggest that sustained MO and EO cultures build opportunity seeking and advantage seeking behaviours crucial to create and sustain SME performance. For resource constrained firms may consider using NWC to complement resource needs and capabilities to be able to create and sustain performance.

The aim of this paper was to investigate the robust contribution of the SER dimensions to SME performance. However, further research should unpack each dimension on a sub scale to determine the individual contribution of the underlying elements of the different constructs.

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