Opportunity Recognition and Sustainable Competitive Advantage of Small and Medium Food Manufacturing Enterprises in Kenya

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Abstract

Small and medium-sized manufacturing businesses (SMEs) are essential to any nation's economic development. They generate revenue, create new employment possibilities, foster competitiveness, and introduce innovation. Nevertheless, despite their substantial contribution, SMEs confront a number of obstacles and limitations that prevent or limit their ability to maintain an ongoing competitive advantage. Opportunity recognition has been found to be the missing component of successful entrepreneurship. This study sought to ascertain the sustained competitive advantage of Kenyan food manufacturing SMEs impacted by entrepreneurial awareness, opportunity identification, opportunity recognition, and internal communication. In order to examine the causal link between opportunity detection skills and the sustained competitive advantage of SMEs in Kenyan food manufacturing, the study used an explanatory research technique. 106 owners of 123 SMEs registered with the Kenya Association of Manufacturers under the food and beverage subsector provided quantitative primary data, yielding an 86% response rate. According to the regression model, ORS strongly predicted the SCA of Kenyan SMEs involved in food production ($\beta = 0.631$ $t = 6.355$, $p<.05$). This suggests that SCA rises by 0.631 for every unit increase in ORS. As a component of EC, ORS had a considerable impact on the SCA of SMEs in Kenyan food production, according to the OLS results, which demonstrate that the influence of ORS on SCA is statistically significant. According to the report, opportunity identification training platforms should be made available to small and medium-sized enterprises. The primary goal should be to identify opportunities in a changing environment.

Keywords: **Manufacturing Enterprises, Opportunity Recognition, Small and Medium Enterprises, Sustainable Competitive Advantage**

INTRODUCTION AND BACKGROUND OF STUDY

Research indicates that in emerging economies, small and medium-sized enterprises (SMEs) generate more than half of all jobs and contribute over 40% to the gross domestic product (World Bank, 2022). According to research, small and medium-sized businesses (SMEs) are essential to emerging economies, contributing on average over 40% of GDP and accounting for about 50% of employment (World Bank, 2022). In the services sector in Greece, SMEs account for over 60% of employment, highlighting their dominant presence in that segment of the economy (Preprints.org, 2023). While the SME sector is still underdeveloped in low-income countries, it is widely acknowledged as the foundation of the economy in high-income countries (Oxford Business Group, 2020). On average, SMEs in low-income countries contribute just over 30% to GDP, whereas in high-income countries, they generate employment for approximately 65% of the working population (World Bank, n.d.; Oxford Business Group, 2020).

According to Bakari et al. (2024), up to 60% of Tanzanian food processing SMEs experience a drop within six months of inception, indicating that they struggle to improve their financial viability. Furthermore, many SMEs lack the adoption of sustainable manufacturing practices, such as lean production or green innovation, due to financial and knowledge constraints (Tsegaye et al., 2021). These issues significantly undermine the ability of SMEs to grow, compete, and survive in the long term across the continent (World Bank, 2020; Akinyemi & Adejumo, 2022).

In India, SMEs are essential to the country's economy. They account for around 33% of all exports and 39% of industrial output (Gbandi & Amissah, 2014). In Nigeria, they are considered as a major source of employment, technological advancements and competitive advantage (Olise, Anigbogu, Edoko, & Okoli, 2014).

SMEs are essential to Kenya's economic growth and job creation. In actuality, they employ almost 80% of the country's labour force. These businesses also provide a substantial contribution to the achievement of the 2030 Agenda for Sustainable Development and the Sustainable Development Goals, according to Singh, Siddiqui, and Shukla (2021). Through economic expansion and the development of jobs, they contribute to the reduction of poverty. For women, young people, and vulnerable groups, they are important sources of employment, respectable work, and entrepreneurship.

Previous studies show that an entrepreneur's competences have a major role in the performance, success, and long-term competitiveness of SMEs (Li & Liu, 2014). This research has mainly focused on testing how opportunity recognition competency influences sustainable competitive advantage of SMEs. Understanding how opportunity awareness affects SMEs' long-term competitive advantage in emerging economies is lacking. The association between opportunity recognition and long-term competitive advantage among Kenya's small and medium-sized food manufacturing companies was investigated in this study. The analysis employed networking ability as the independent variable and sustainable competitive advantage as the dependent variable.

Manufacturing SMEs in Kenya

The number of workers and the yearly turnover of the business have been used to define the institutional and legal framework for Kenya's SMEs (MSMEs Act, 2012). Micro enterprises are defined as businesses with less than ten employees, yearly sales of less than KES 500,000, and capital formation of less than KES 5 million for services or less than KES 10 million for manufacturing. Conversely, small businesses are defined as those that have between 10 and 50 employees, annual turnover between KES 500,000 and KES 5 million, and capital formation between KES 5 million and KES 20 million for services or between KES 5 million and KES 50 million for manufacturing (UNCTAD Report 2013). Medium-sized businesses have between 51 and 100 employees (The Kenya Government Baseline Survey, 1999). According to certain definitions, small and medium-sized businesses in Kenya's manufacturing sector include those with less than 100 full-time employees or an annual sales turnover of less than Ksh 150 million (Mwirigi, 2017).

According to statistics from the Kenya National Bureau of Statistics' (KNBS) Annual Economic Survey for the years 2010–2014, the manufacturing sector's growth rates have consistently declined despite times of robust expansion in a number of other economic sectors (GOK, 2014).

Research indicates that food, beverages and tobacco sub-sector in Kenya’s manufacturing which includes many SMEs contributed significantly to national GDP in recent years, with the manufacturing sector overall contributing about 7.6% of GDP in 2023, and the food, beverages & tobacco sub-sector valued at KSh 629.7 billion, with employment in manufacturing around 362,300 people (KNBS, 2023).

According to data from the KNBS in 2017, the food, beverage, and tobacco subsector accounts for two out of every five shillings that the industry contributes to GDP, making food production the most prevalent industrial activity. The industry had a dismal marginal increase of 0.2 per cent in 2017 compared to 2.7 per cent the previous year.

Opportunity Recognition Competency

Opportunity recognition can be defined as identifying prospects and gaps in the market and coming up with solutions to fill these gaps, opportunities are discovered and they are created by combining many ideas over time (Short, Ketchen Jr, Shook, & Ireland, 2010). The identification of entrepreneurial opportunities is described as a cognitive act, with different individuals playing different roles throughout the entrepreneurial process.

One of the main characteristics of a successful entrepreneur is that they can see or recognize opportunities that others cannot (Mitchelmore & Rowley, 2010). They are always on the lookout for such. This includes the entrepreneur's thinking capability, innovating, and coping with uncertainty (Man et al., 2002).

Sustainable Competitive Advantage

A firm's long-term advantage over rivals in a particular market, industry, or strategic group is known as sustainable competitive advantage, or SCA. SCA is associated with the company's attempts to create and sustain advantages over an extended period of time (Hakkak & Ghodsi, 2015). Maintaining a sustainable competitive advantage—that is, an organization's ability to achieve its objectives over an extended period of time—is frequently linked to success. Despite the fact that there exists different measures of SCA, the balanced scorecard approach is considered reliable (Milis & Mercken, 2004). According to Wu, Tzeng, and Chen (2009), a balanced scorecard is an integrated collection of financial and non-financial performance metrics that are generated from the company's strategy and support the plan's execution throughout the organization.

Statement of the Problem

Small and medium-sized businesses play a significant role in the Kenyan economy. Over 80% of Kenya's working population depends on them for their income, and they make up around 98% of all enterprises. In 2019, the private manufacturing sector generated 7,700 new jobs, accounting for 329,000, 24,300, and 3 million wage jobs in the public, private, and informal sectors, respectively (KNBS, 2020). Nowadays, a huge number of small, medium, and big

food production businesses have developed in both urban and rural areas, utilizing the agricultural produce that is readily accessible, including meat, dairy products, legume mixtures, fruits, and vegetables. (UNCTAD, 2021)

SMEs encounter a number of obstacles and limitations that prevent or limit their sustainability, notwithstanding their contribution to wealth development. Concern over Kenya's SME growth's ongoing stagnation and deterioration is rising (Oketch & Okeyo, 2024). Manufacturing's contribution to Kenya's GDP has dropped from about 11.3% in 2010 to roughly 7.3% in 2024, even though the sector still employs close to 369,200 people providing about 11.8% of formal employment. The number of workers in the food manufacturing sector decreased by around 2% (ROK, 2012). Low company performance might make the nation more susceptible to changes in global market prices if it persists (Onjala, 2010). Past studies indicate that SMEs Entrepreneur's opportunity recognition skills determine the success of the firm (Chaston & Scott, 2012).

According to research, the capacity of entrepreneurs to see opportunities has a major impact on the sustainability and profitability of small and medium-sized businesses (SMEs) (Chaston & Scott, 2012). While earlier studies focused primarily on business management and strategy, recent global research has reaffirmed the importance of opportunity recognition in different economic contexts. For example, in Indonesia, opportunity recognition was found to positively impact SME performance, especially when moderated by business model innovation (Hartono & Ardini, 2022). In Malaysia, international opportunity recognition was shown to influence the export performance of manufacturing SMEs when paired with dynamic capabilities (Masnan, Saad & Ramlee, 2018).

Furthermore, a Ghanaian study showed that the association between entrepreneurial attitude, social media use, and overall SME success is mediated by opportunity recognition (Anim, Arthur & Amoako, 2024). There exists also gap in the knowledge base relating to the specific opportunity recognition. Unfortunately, only a few studies have focused on opportunity recognition Äyväri, (2006) in skills of entrepreneurs in developing economies. The goal of this study was to find out how opportunity detection abilities affected Kenyan SMEs' manufacturing companies' ability to maintain their competitive advantage.

Justification of the Study

Due to their important role in economic development and the achievement of Vision 2030, this study concentrated on SMEs in Kenya's food manufacturing industry. Kenyan economic sustainability will be propelled by profitable and sustainable small and medium scale firms in the formal and informal sectors. Strengthening the long-term survival of SMEs is a crucial approach toward achieving Kenya's food sustainability, which heavily depends on value-added goods from food manufacturing companies. This study lays the groundwork for future research by providing theoretical and empirical insights on opportunity detection and sustained competitive advantage. Additionally, it gives academics a comprehensive understanding of the many viewpoints of opportunity recognition and the long-term competitive advantage of SMEs in the food manufacturing industry.

Theoretical Framework

Resource Advantage Theory and Opportunity Identification Theory were the theories that guided this study. The focus of opportunity identification theory is on how people spot and seize business possibilities. Alvarez & Barney (2007) state that opportunities recognition can be modelled either as discovered or created. According to Scott Shane (2003), opportunity identification, also known as the individual-opportunity nexus, is basically the study of how entrepreneurs locate, evaluate, and take advantage of possibilities (Eckhardt and Shane, 2003). It entails comprehending the cognitive, social, and environmental elements that affect the process of identifying prospects for novel companies, goods, or services. Entrepreneurs actively scan their environment and potential opportunities. Once potential opportunities are identified, entrepreneurs evaluate them. Entrepreneurs act upon identified opportunities by developing business plans, securing resources, and implementing strategies to exploit the opportunity effectively.

Resource advantage theory suggests knowledge as a strategic resource of firms. Knowledge creation and its utilization may help firms develop market offerings that provide value to customers and increase the efficiency of business operation. New knowledge may enhance SMEs sustainability. Likewise new knowledge may help small enterprises anticipate future opportunities and seize them (Li et al., 2009). Knowledge creation may also help to bring products to market sooner and improve the product reliability and quality (Peng & Luo, 2000;

Walter et al., 2006). Small firms with beneficial new knowledge may be emboldened to pursue aggressive competitive moves (Tolstoy et al., 2009).

Empirical Literature Review

This section examines empirical research done in various settings. The examined studies provide insightful information about previous studies done on opportunity recognition functions as a crucial skill within the broader domain of entrepreneurship. Ramos-Rodríguez et al. (2024) looked into how intellectual and social capital affected opportunity recognition and discovered that a person's ability to acquire outside information via social networks is essential for identifying commercial prospects. According to Wagbara & Klin's (2023) study, business education students in Bayelsa State, Nigeria, need to be prepared to recognize possibilities and establish strategies in order to create jobs. Masiko et al. (2024) discovered a favorable correlation between women entrepreneurs' ability to recognize opportunities and the performance of women-owned businesses in Uganda. Prior market and technological knowledge moderate the impact of OR and exploitation on venture success, according to a 2018 study by Sabai Khin & Lim on a study about Entrepreneurial Opportunity Recognition, Exploitation and New Venture Success in Malysia.

Alim and Mia (2023) discovered that opportunity recognition acts as a mediating element between human and environmental factors and entrepreneurial performance in Bangladeshi SMEs. Both internal and external factors have a significant impact on SMEs' capacity to recognize and take advantage of opportunities, including market conditions and institutional support, as well as personal characteristics and talents related to entrepreneurship.

The integration of opportunity and resource capacities in green entrepreneurship is the subject of another study. It was discovered that by coordinating entrepreneurial endeavors with environmental sustainability objectives, a green entrepreneurial approach enhances the sustainable competitive advantage of SMEs (Li, et al, 2022). According to Ardichvili and Cardozo's (2000) research, entrepreneurial awareness and alertness, information asymmetry and prior knowledge, opportunity discovery, networking, and innovation all have an impact on successful opportunity recognition.

Innovation and exploratory orientation were found to be positively correlated in a 2015 survey of Chinese businesses (Guo, Su & Ahlstrom, 2016). Entrepreneurs must be proactive in order to recognize opportunities. Women entrepreneurs were able to recognize chances and take

advantage of the richness of their surroundings, according to a Russian study. The study's findings also demonstrated that women-led businesses were unaffected by family business (Kickul, Liao, Gundry, & Iakovleva, 2010).

Conceptual Framework

Young (2009) defines a conceptual framework as a diagrammatical representation that describes the connection between independent and dependent variables. This framework is developed based on a broad literature review to identify opportunity recognition skills that are significant in influencing sustainable competitive advantage of SMEs. Three important opportunity recognition constructs—entrepreneurial alertness, opportunity identification, and opportunity development—are identified in the literature study as potentially influencing the long-term competitive advantage of SMEs.

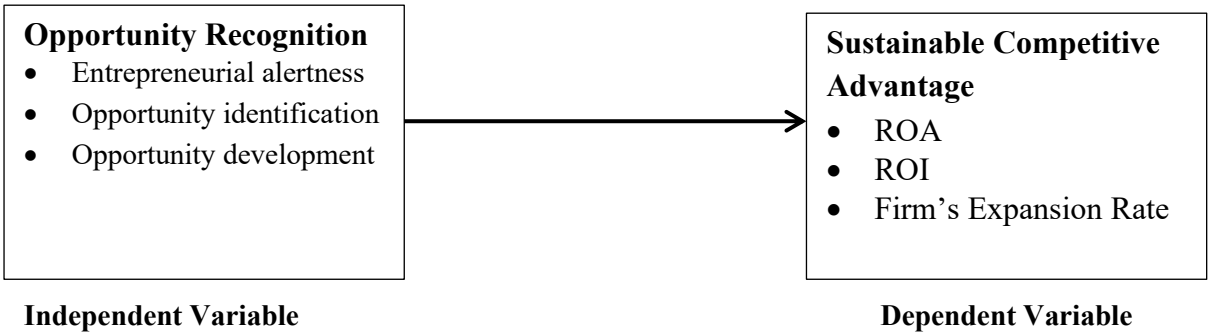

Figure 2.1: Conceptual Framework

Opportunity Recognition

Opportunity recognition describes how entrepreneurs discover new opportunities that they were previously unaware of, which benefits companies and organizations. It describes how potential value creating ideas are identified, assessed, and chosen based on perceived market needs, technological possibilities, or resource gaps (Shane & Venkataraman, 2000). Opportunity recognition is a continuous entrepreneurial process in which people become aware of and interpret environmental changes through entrepreneurial alertness as a cognitive ability to notice overlooked cues and emerging patterns (Tang et al., 2012). It also involves Opportunity identification where entrepreneurs identify, assess, and choose potentially

valuable concepts based on perceived market demands, technology advancements, or resource shortages (Shane & Venkataraman, 2000). In order to turn abstract concepts into workable and actionable venture concepts, entrepreneurs engage in opportunity development, an iterative refinement process that includes experimentation, feedback gathering, resource mobilization, and business model shaping (Ardichvili, Cardozo & Ray, 2003).

Sustainable Competitive Advantage (SCA)

For an organization to maintain a permanent competitive advantage, it must distinguish its goods and services from those of its rivals and continually generate outstanding financial and non-financial performance. To do this, effective policies are essential Kwun & Oh, (2004), because it places a strong emphasis on preserving causal relationships between internal and external performance elements, as well as between financial and non-financial metrics, and the balanced scorecard is regarded as a trustworthy technique for evaluating sustainable competitive advantage (Hakkak & Ghodsi, 2015). Profit maximization is the ultimate goal of a business enterprise Milis & Mercken, (2004), for organizations to remain competitive, they can consider new ways of doing business. The criteria for customer satisfaction must be arranged in order to achieve organizational goals (Fazli et al., 2013). The indicators proposed include quality, responsiveness, timeliness, cost, productivity and assets (Balfaqih, Nopiah, Saibani, & Al-Nory, 2016). Noe, Hollenbeck, Gerhart, and Wright (2017) state that the primary goals that business organizations, in particular, should work towards gaining a competitive advantage position and improving firm performance in comparison to their rivals.

Critique of Literature

Opportunity recognition is a critical competence for SMEs; the main focus of opportunity identification theory is on how people find opportunities using their cognitive processes. Even though this is important, it might ignore the larger structural and environmental elements that are also very important in identifying opportunities.

Despite the substantial evidence indicating a favorable correlation between SME success and opportunity recognition, the field is confronted with issues pertaining to causality, measurement, context specificity, and the dynamic character of opportunities. By addressing these criticisms with rigorous research methods, taking mediating factors into account, and conducting longitudinal studies, we can better understand how SMEs can recognize and seize opportunities to improve their performance.

RESEARCH METHODOLOGY

Research Philosophy

The positivistic philosophical approach was used in this investigation. Orucho (2014) asserts that the positivistic philosophical approach is quantitative and heavily relies on hypothesis testing. It is predicated on measurement, neutrality, objectivity, and validity of findings, which are fundamental principles of the social sciences. Positivism is defined by a confidence in theory prior to research and statistical justification of conclusions from experimentally testable hypotheses (Cooper & Schindler, 2011).

Research Design

The study used a cross-sectional survey and a descriptive research approach. Because the goal was to investigate the presence and strength of causal links between the independent factors and the dependent variable at a particular moment in time, a cross-sectional technique was used (Dasgupta & Singh, 2006). Descriptive survey design was used to obtain information from a census of 123 respondents for testing hypotheses on the effect of opportunity recognition on sustainable competitive advantage of Food Manufacturing SMEs.

Study Population

According to the 2017 KAM Directory, the survey comprised of 123 small and medium-sized food enterprises who were registered with the Kenya Association of businesses (KAM). The owners of SMEs inside food and beverage manufacturing enterprises were the unit of observation, and these companies themselves were the unit of analysis. The food and beverage subsector was selected because, in comparison to other subsectors in the manufacturing segment, it has the greatest number of businesses in Kenya with a negligible GDP contribution of 3.5% (KAM 2018).

Sampling Techniques and Sample Size

Since the population was small, the research used a census (Kothari, 2004). The distribution was as shown in Table 1.

Table 1: Sample Size

Target Population	Number of Firms	Percentage %
Nairobi	62	50
Mombasa	12	9
Thika	10	8
Kisumu	6	5
Nakuru	6	5
Eldoret	5	4
Kericho	4	3
Ruiru	3	2
Nyeri	3	2
Towns with < 3	11	12
Total	**123**	**100**

Data Collection and Analysis

Likert scale questionnaires were utilized in this study to gather primary data from food manufacturing SMEs. Because the Likert scale questions are simpler to answer, the responder might not become fatigued easily (Polkinghorne, 2005). Both independent and dependent variable constructions were used in the design of the surveys. All SMEs in the food and beverage subsector received the surveys. To evaluate the study hypothesis, the gathered data were imported into SPSS, coded, and examined.

RESULTS AND FINDINGS

Response Rate

A response rate of 87%, which was sufficient for the analysis, was obtained from 106 out of 123 target respondents using the cleaned data.

Pilot Testing

In this study the respondents used in the pilot study were 12 SMEs which have been licensed by the regulatory authority but not registered by KAM. The composite Alpha exceeded 0.7 and the Cronbach's alpha above 0.6, confirming reliability. Additionally, the measure's dependability was further demonstrated by the Average variation Extracted (AVE), which

evaluates the percentage of variation collected by a construct relative to measurement error, being greater than 0.7.

Descriptive Statistics on Opportunity Recognition Skills

Each opportunity identification skills question got a mean value of 6 (M=6, zero decimal place), according to the descriptive statistics results. The standard deviation showed a high degree of agreement among the responders, ranging from.432 to.853. This finding suggests that respondents "slightly agreed" (M=6) that the ability to recognize opportunities gives manufacturing SMEs a competitive edge. The findings of the descriptive statistics are shown in Table 4.4, where 1 = strongly disagree; 2=slightly disagree 3= disagree; 4 = neutral; 5=slightly agree; 6 = agree; 7 = strongly agree.

Table 4.1: Descriptive Statistics of Opportunity Recognition Skills

	Percentage						Mean	SD
Entrepreneurial alertness	1	2	3	4	5	6		
Our organization accepts customer demands that go beyond existing products and services			1.0	1.0	17.1	81.0	5.78	.500
The company has networks of comparable SMEs that provide the same goods and services.				1.0	19.0	80.0	5.79	.432
When demand is great, the company contracts out services to other SMEs.	1.9			1.0	35.2	61.9	5.53	.809
Opportunity Identification								
We assess business opportunities with thorough consideration before taking action				1.0	36.2	62.9	5.62	.507
We actively seek opportunities through soliciting opportunities from customers				1.9	36.2	61.9	5.60	.530
We identify market opportunities in unfilled market gap					30.5	69.5	5.70	.463
Opportunity Development								
We frequently tap into new opportunities in new markets.				2.9	22.9	74.3	5.71	.514
The firm frequently introduces new products and services to meet its clients demand				1.0	31.4	67.6	5.66	.534
The firm frequently opens new branches, depots and centers to sell its products and services	1.9		1.0	1.9	26.7	68.6	5.57	.853

Hypothesis Testing

To determine if the Ordinary Least Square (OLS) regression model was suitable, a diagnostic test was performed. These tests confirmed the regression model's assumptions, and the results demonstrated that the data was normally distributed and demonstrated there was no multicollerated link between networking capability and lasting competitive advantage. OLS models were used to evaluate the hypothesis in light of these findings, and the following outcomes were obtained:

Opportunity Recognition Skills

The research hypothesis was H_{01}: Opportunity recognition has no significant effect on sustainable competitive advantage of SMEs in food manufacturing in Kenya

Three results were obtained from the OLS, as indicated in Table 4.15: the model summary, the regression ANOVA, and the regression coefficient.

According to the model summary results, ORS has a statistically significant impact on SCA (R2 = 0.282 F (1, 103) =40.386, p-value <.05). This indicates that ORS is responsible for 28.0% of the SCA of SMEs in Kenyan food production, with the remaining 72.0% being attributable to the error term and other variables not covered in the study. According to the results of the regression ANOVA, ORS significantly affects SCA F (1, 103) = 40.386, p<.05. This demonstrates that the regression model was appropriate for forecasting the outcome variable regarding the impact of ORS on the SCA of SMEs in Kenyan food industry.

Table 4.2: Regression Model Output of ORS on SCA

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.531[a]	.282	.275	.42220	.282	40.386	1	103	.000

a. Predictors: (Constant), Opportunity Recognition Skills

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.199	1	7.199	40.386	.000[b]
	Residual	18.360	103	.178		
	Total	25.558	104			

a. Dependent Variable: SCA_New

b. Predictors: (Constant), Opportunity Recognition Skills

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.885	.563		5.120	.000
	Opportunity Recognition Skills	.631	.099	.531	6.355	.000

a. Dependent Variable: SCA_

The study derived the model for ORS and SCA based on simple OLR model:

$$Y = \beta_0 + \beta_i x_i + \varepsilon$$

Where;

Y =SCA;

β_0 = Constant;

β_i = ORS and

ε= Error term.

Y= 2.885 + .631X

Opportunity recognition skills (ORS) substantially predicted the SCA of SMEs in Kenyan food manufacturing, according to the regression model (β =.631 t = 6.355, p<.05). This indicates

that SCA rises by 0.631 for every unit increase in ORS. This led to the study's null hypothesis being rejected; *H_{01}: opportunity recognition has no significant effect on sustainable competitive advantage of SMEs in food manufacturing in Kenya*

Opportunity recognition significantly impacts the long-term sustainability of SMEs, particularly through the adoption of business model innovations. These innovations, driven by the recognition of new market opportunities, help SMEs maintain competitive advantage and sustainability in challenging business environments (Kutlaca et al., 2020).

CONCLUSION AND RECOMMENDATIONS

Conclusion

A unit improvement in opportunity identification skills boosts SMEs' sustainable competitive advantage in Kenyan food manufacturing by 0.631, accounting for 27.0% of SMEs' sustainable competitive advantage. Thus, our study has shown that SMEs need to be able to recognize opportunities in order to gain a sustained competitive advantage.

Recommendations

Therefore, in order to establish a lasting competitive advantage for their businesses, this study suggests that managers and owners of SMEs should create and implement strategies to improve their capacity to recognize opportunities. Additionally, the research recommends that the government and other policy makers provide spaces where SMEs may interact, share ideas, and enhance their capacity to identify possibilities.

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