The Effects of Competitive Strategy and Knowledge-Based Views on The Performance of Medium Enterprises in Shagar City

Dr Chalchissa Amentie Kero * and Emnet Negash Debele**

*Associate Professor of Management, Ethiopian Civil Service University, Addis Ababa, Ethiopia (Corresponding author). Email-chalchoko@gmail.com
** Associate Professor of Management, Jimma University

Abstract

The aim of this study was to identify of competitive strategy and the knowledge-based views on the performance of medium enterprises in Shagar City. The sample size of the study was a total of 315 leaders and non- managerial employees of firms found in Shagar city. The source of the data for the study was both secondary and primary data in which the primary data was collected through questionnaires which was developed in English language. To analysis the collected data multiple regressions was used. As the multiple regression result of the study shows, that there is significant and moderate relationship between competitive strategy, knowledge management capacity and performance of the firm. In competitive strategy (marketing differentiation and cost leadership) are the most determinants of firm performance. In addition, in knowledge management capacity, knowledge creation and knowledge sharing are the most determinants of firm performance. Therefore, it is advisable for small and medium firms more focusing on marketing differentiation and cost leadership, knowledge creation and knowledge sharing among staffs that can contribute for the superior performance of the firm.

Keywords: competitive strategy, knowledge management capacity and performance of the firm

1. Background of the study

The resource-based view (RBV) of the firm has its roots in the organizational economics and strategic management literature, "where theories of profit and competition associated with the writings of Ricardo (1817), Schumpeter (1934) and Penrose (1959) focus on the internal resources of the firm as the major determinant of competitive success. Central to the understanding of the resource-based view of the firm are definitions of resources, competitive advantage, and sustained competitive advantage (Shahnawaz and Sajjad,2012). The real development was on the resource-based view was made during 1980s. The scholars working in the field of strategic management found dissatisfaction with the Porter Five Forces Model. As porter model suggested that the competitive advantage lies in the external forces Lippmann & Rumlet (1982), Wernerfeldt (1984). Barney (1986) also contributed towards the development of resource-based view by giving the concept of strategic factor markets. Later on during 1991 &2001, Barney also extended his work on the RBV.

According to Porter (1985), the kind of the positioning on the industry or market segment leads to competitive advantage of cost leadership or differentiation. However, this viewpoint has been overcome by the development of resource-based view (RBV) theory that emphasizes the variable resources and capabilities (Leventi and Theriou, 2008; Husnahet at.; 2013).RBV points out the significance of individual firm contrary to Porter viewpoint.

Resource based view gives attention to the unique resources of a firm. The competitive advantage that is retained for a long time finally leads to higher performance (Peteraf, 1993; Amit and Shoemaker, 1993; Leventi and Theriou, 2008). Therefore, it is undoubtedly needed to build resource-based view as an organizational process to reach such a competitive advantage. In continuation, the core processes of RBV intangible assets (knowledge creation and application/utilization, strategic selection capability) and sustainable performance of firm (market, costumer, finance) as well as relationship between these items are stated (Mostafa and Fatemeh, 2014).

Organizational performance is obviously a central issue in strategic management research. Several authors have analyzed the organizational performance in terms of corporate strategy (Chenhall & Langfield-Smith, 2007) (Carton & Hofer, 2006). Hamon (2003) defined organizational performance as a variable used to measure the degree of organizational performance in achieving organizations' objectives, efficiency, and effectiveness in achieving their goals (Robbins & Coulter, 2002). In addition, Ho (2008) defined organizational performance as an indicator to measure the efficiency of an organization to accomplish its objectives, in terms of achieving organization market orientation and financial goals (Li, Ragu-Nathan, Ragu-Nathan, &Rao, 2006).

There are a number of indicators used to measure organizational performance since 1900; however, among the popular indicators in the financial performance (FP) construct of organizational performance were profit growth rate, return on sales (ROS), return on assets (ROA), and overall performance (Hancott, 2005). Furthermore, Li et al. (Li, Ragu-Nathan, Ragu-Nathan, &Rao, 2006) mentioned that organizational performance can be measured in terms of market performance (MP) and FP, which consists of organization's profits, return on investments (ROI), market share, and also growth of sales (Chee-Hua, May-Chiun, &Ramayah, 2013).

Leaders must see into the future, create new visions for success, and be prepared to make "quantum improvements" (Efendioglu & Karabalut, 2010). Therefore, by using RBV theory the study suggests resources and capabilities which are basis to create a strategy and allow organization to use its core competencies for opportunities in external environment.

2. Statement of the problem

Some researchers believed that a strategic position of a companies' management is forecasting the market trend and obtaining sustainable competitive advantage to improve companies' position among competitors (Mostafa and Fatemeh, 2014; Trung, 2014).

According to Porter (1985), the kind of the positioning on the industry or market segment leads to competitive advantage of cost leadership or differentiation. However, this viewpoint has been overcome by the development of resource-based view (RBV) theory that emphasizes the variable resources and capabilities (Leventi and Theriou, 2008; Husnah et at.; 2013). RBV points out the significance of individual firm contrary to Porter viewpoint. Further empirical researches have been made that prove the positive link between RBV theory and the firm performance. Performance and subsequently to reach sustainable competitive advantage is normally characterized as a firm's capability to build acceptable outcomes and actions. For firms, reaching improved performance not only depends on the successful deployment of tangible as well as intangible assets and knowledge capabilities but also on the effective management of this sector (Barney, 2000; Mostafa and Fatemeh, 2014).

However, investment knowledge in developing countries is relatively small and does not have significant leverage on economic growth. The most significant weakness of developing countries is the difficulty to achieve progress in human capital, knowledge creation and customer capital. As a result of education and training system is not optimal in generating human capital and knowledge creation and utilization (Hamidizadeh &Taheri, 2013; Husnah et al.,2013). Furthermore, there are some gaps of knowledge transfer routines within organization. The first gaps for the achievement of knowledge diffusion was to motivate employees share knowledge and information with each other. The second problem refers to the possibility of persons intervened the procedure of collaboration, for the production of knowledge, to escape the network or deny revealing the new knowledge obtained. This can occur to both employees and firms. A third difficulty is identified to the lack of efficiency relating to knowledge diffusion and exploitation even more in case of tacit knowledge (Wood and Gray, 1991;Leventi and Theriou, 2008).

Recently many researches have stated as an integration of intangible assets (knowledge, competitive strategy) and financial performance of SMEs to be one interesting phenomenon for SMEs improvement and provide benefits to stakeholders" (Husnah, et al.; 2013, Mostafa and Fatemeh, 2014) however, still it does not implemented by many firms in developing countries.

Furthermore, most of the work on resource-based view strategies have been conducted in the context of *large firms and in developed countries*. Whilst there are very few studies in developing countries on large company (Mostafa and Fatemeh, 2014; Theresia et al.; 2015). Since, the firm size and lack of research in developing countries were the gap. Despite this

importance, though, studies on the strategies of small and medium enterprises in emerging markets have not been as prevalent as in advanced countries. Despite the fact that the characteristics of MEs and the business environment in developed countries are not exactly the same as those in developing countries, the findings and policies from developed countries cannot be generalized and applied to developing countries. This may lead to biased policy and ineffective strategy.

Hence, this study newness is specific firm performance measurement for MEs, based on intangible asset investment strategy, creation and utilization of knowledge, competitive selections, market performance and profitability. In the previous studies have not found an explanation and a satisfactory answer (Shahnawaz and Sajjad,2012; Husnah, et al.; 2013; Mostafa and Fatemeh, 2014). Measurement of intangible assets as individual variable, particularly utilization of knowledge, is done by adding an indicator, not only related to customer but to judge other stakeholders (government, suppliers and competitors) to refine the idea of research in complementary intangible assets measurement variables. However, until now, has not been studied directly their effect on profitability or mediation the determination and implementation of competitive strategy and marketing performance as an intervening variable in improving SMEs financial performance in Ethiopia. Therefore, this study makes model integration of intangible assets, examine the direct effects on profitability of firms as well as indirect effects mediated by strategies selection and market performance, both individual and comprehensive measurement.

3. Objectives of the study
The main objective of this study is to assess the effect of competitive strategy and the knowledge-based views on the performance of medium enterprises in Ethiopia.

Specifically

1. To assess the effects of competitive strategy on firm performance.
2. To assess the effects of knowledge management capability of firms on firms' performance.
3. To investigate the relationship of competitive strategy, knowledge management capability and firm performance.

4. Model Development and Hypotheses of the study

4.1 Effects of Knowledge on Firm Performance

Firm performance that can be achieved from competitive advantage of a nation is correlates indirectly with the nation's collective capability to produce, distribute and apply knowledge in economy (Husnah et al.;, 2013).More and more studies reveal that knowledge is the most suitable tool for the achievement of sustainable competitive advantage. Knowledge is the most complex and difficult to copy resource, which provides knowledge-basedview (KBV) with gravity.

Many studies have been conducted which confirm the positive relationship between knowledge-based theory and firm performance through competitive advantage. Kaplan et al. (2001) have concentrated many of the major studies concerning knowledge creation, integration, absorption, replication, sharing, and utilization of information/knowledge and their impact, among others, on firm performance.

Market knowledge has been found to be a determinant of performance differences (Gassmann&Keupp, 2007). Successfully converting knowledge into planned outcomes is a key aspect of the knowledge-based view of the firm (De Clercq&Dimov, 2008). The knowledge-based view of the firm focuses on a firm's intangible resources, rather than on its physical assets (Gassmann&Keupp, 2007). Knowledge is arguably among the most important intangible strategic resources, because organizations with superior knowledge can create new and distinctive ways to combine traditional assets and resources; thereby providing superior value to customers (Sharkie, 2003; Teece, et al., 1997). For this reason, the ability to acquire, develop, share, and apply knowledge can lead to the creation of SCA (Grant, 1996; Kogut& Zander, 1992; Macher&Boerner, 2006;Matusik& Hill, 1998). According to the knowledge-based view, internally embedded knowledge can provide a basis for SCA because it has value, is a unique creation, and therefore is difficult to imitate (Tsai & Li, 2007).

Furthermore, Nonaka et al. (1995) cited in Leventi et al.;(2008 and Spender (1996) conclude that knowledge creation leads to competitive advantage. Nahapiet and Goshal (1998) have proved that differences in firm performance stem from the ability to create and apply social capital, while Teece (1998) testifies that possession and proper combinations of knowledge assets generate competitive advantage. Grant (1996) has shown that integrative capabilities influence firm performance.

A better knowledge and understanding of the marketplace, and can address the specific needs of customers and suppliers (Li & Li, 2008). Thus, firms that develop strategies based on superior local market knowledge may find that resultant competitive advantages are more sustainable in the transitional economy marketplace, and for that reason, may have higher levels of firm performance compared to firms that choose other ways to compete.

Firms with superior local market knowledge often have a better understanding of customer needs, the local culture, and the idiosyncratic local government policies and regulations. Additional advantages also include access to distribution channels, ethnic bonds, and strong relationships with both private and government organizations and personnel (Hitt, et al.; 2000; Child & Rodrigues, 2005; Hitt, Li, & Worthington, 2005 cited in Randall, 2013).

SMEs may also be able to mitigate resource disadvantages by creating an advantage based on flexibility, defined here as a firm's ability to rapidly respond to market changes (Bierly III & Daly, 2007). In order for a firm to employ strategies based on flexibility, it needs to possess expert knowledge about the local market/customer needs (Johnson, Sohi, &Grewal, 2004; Luca &Atuahene-Gima, 2007). Such knowledge may be used to increase a firm's ability to discover and exploit specific market opportunities that can create a basis for differentiation and sustainable competitive advantage (Randall, 2013).

Furthermore, Leventi and Theriou (2008) found that knowledge capabilities do not influence profitability directly way, rather than they manage to have a great impact on firm performance through market performance that intervenes between profitability and firm performance. Therefore, it is posited that:

Hypothesis 1:The higher level of knowledge management capacity of firm is the higher Performance.

Hypothesis 1_1 : Knowledge creation positively affect performance of firms

Hypothesis 1_2:Knowledge sharing positively affects performance of firms
Hypothesis 1_3:Knowledge utilization positively affects performance of firm

4.2. Effect of Competitive Strategy on Firm Performance

There has been a long dispute about how organizations could reach to sustainable competitive advantage. In addition, many experts have revealed their opinions for such a matter including porter, which believed that cheap labors and natural resources are not good economy requirements (Porter, 1985cited in Andersen, 2013). He expressed that a competitive advantage was the ability obtained through resources and attributes that helps a firm perform at a higher level than the other competitors in the same industry or market (Josiah, 2013, Mostafa and Fatemeh,2014).

Typology of business strategy is consistent with resource-based perspective, where VRIN criteria are a very fundamental aspect to achieve successful business strategy, especially to give value (Finney and Lueg, 2007). This means that company's strategy is an important part of company's organizational systems to improve business performance. Studies specifically support the direct influence of the porter's competitive strategy and financial performance (Slater, Olson,and Hult,2006, Husnah et al.;2013).

The study of (Slater, OlsonandHult, 2006) asserts that strategic orientation of different ability elements will create strategies and performance. Competitive advantage generated by the precision of strategies chosen and implemented by company. As Spanos and Lioukas (2001) did, a positive relationship between market performance and profitability (the first one affects the second) as various empirical researches have shown in the past. Leventi et al.;(2008) found that strategy is a direct significant determinant of market performance and indirectly affects profitability (Leventi et al.;2008). From this, we can post as:

Hypothesis *2:The higher level of knowledge management capacity of firm is the higher Performance.*
Hypothesis *2_1 : Innovation Differentiation positively affect performance of firms*

Hypothesis *2_2:Cost Leadership positively affects performance of firms*
Hypothesis *2_3: Marketing Differentiation positively affects performance of firms*

Hypothesis *(H₃): Knowledge creation, Knowledge sharing Knowledge utilization, Innovation Differentiation, Cost Leadership, Marketing Differentiation and performance of firms have positive relationship.*
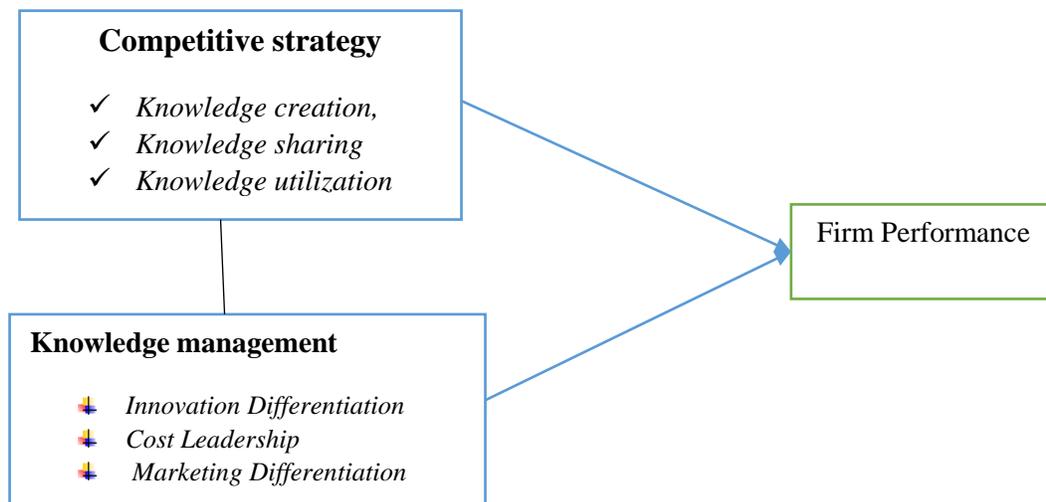
Figure 1: Conceptual framework of current study

Sources : *compiled from (*Barney, 1991, 2000 Mostafa and Fatemeh ,2014*)*

5. Methodology

Methodology the main objective of this study is to assess the effects of the compitive strategy and the knowledge-based views on the performance of small to medium enterprises in Shagar City. Explanatory survey design was employed in the study with the assumption that it enables the researcher to reveal the existing situations in firms. Also it employed quantitative research approach. The sample size of the study was a total of 315 leaders and non-managerial employees of firms. To select respondents,' Simple random sampling technique was employed. The source of the data for the study was primary data in which the primary data was collected through questionnaire which was developed in English language and translated in to Afan Oromo. The collected data was analyzed by inferential analysis through SPSS.

5.0 Data analysis and interpretation

The main objective of this section is to test psychometric evaluation constructs in order to examine the reliability and multicollinearity test the ***effects of competitive strategy and the knowledge-based views on the performance of medium enterprises***to achieve this objective, statistical technique for hypothesis testing is applied.

5.1. Reliability of a Construct Test

It allows checking the internal consistency of all indicators to measure the concept (thoroughness with which all indicators measure the same).

Reliability can be measured with Cronbach's coefficient alpha which should surpass the .70 threshold (Field,2013).High Cronbach's alphas refer to patterns of *high inter-correlations among*

the items in a scale, indicating that they constitute a coherent whole in measuring a construct. However, other scholars (Churchill, 1991) have suggested that Cronbach's alpha as low as .60 are acceptable for hypothesis testing.

In the current study the Cronbach alpha coefficient of all constructs are greater than 0.7. This shows almost all constructs of current studies have **good the internal consistency** scale with the without any exception for hypothesis testing.

Table 4.1 displays each construct, item to total correlation and its associated reliability coefficient.

Table 4.1 Construct reliability

Constructs	No of Items	Chronbach Alpha (reliability)
Competitive strategy	**12**	**0.872**
Marketing Differentiation	4	.789
Cost Leadership	4	.853
Innovation Differentiation	4	.921
Knowlegde managenet	**12**	**0.814**
Knowledge Creation	4	0.852
Knowledge Sharing	4	0.770
Knowledge Utilization	4	0.820
Firm performance	**10**	**0.721**

Source: result of our survey outpout/2020

5.2 Correlations between Key Measures and Multicollinearity Diagnostics

Correlation analysis is used to describe the strength and direction of the relationship between two variables. The Pearson(r) method should be used only when each variable is quantitative in nature *(*Gupta, 1999; Julie, 2005). The statistical significance of r is also provided. The sign out the front indicates whether there is a positive correlation (as one variable increases, so too does the other) or a negative correlation (as one variable increases, the other decreases). The size of the absolute value (ignoring the sign) provides information on the strength of the relationship [1](Julie, 2005). All variables are expected to correlate with each other because of they are measuring the same thing.[2] So that any variable that does *not correlate* (r=0) with any other of variables (or **very few**) then these variables should be *excluded before factor analysis is run.*

The opposite problem when variables correlate too highly. **Mild Multicollinearity**[3] is not problem for factor analysis; however it is important to *avoid extreme multicollinearity*

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[1]*A level of correlation is implied as:* **not correlate (r=0); low(r<|.2|); mid (|.2|≤r<|.5|); high (|.5|≤r<|.8|); very high (r≥|.8|), perfectly correlated(r=± 1)** *(Gupta, 1999;Julie, 2005; Field, 2013).*

[2]*Do not confuse correlation with regression. While the former does not presume any causal link between X and Y, the latter does. The term "correlation" means "Co (together)" + "Relation." If variable X is higher (lower) when variable Z is higher (higher), then the two variables have a positive (negative) correlation. A correlation captures the linear correlation, if any, shown in a scatter between the graphs.*

[3]*Collinearity means that two or more of the independent/explanatory variables in a regression have a linear relationship. Collinearity between variables is always present. A problem occurs if the degree of collinearityis high*

(variables that are very highly correlated, r$\geq$0.8*) and* **singularity** *(variables that are perfectly correlated,r=$\pm$1*)(Juile,2005;Field, 2005,2013).In regression as well as in factor analysis singularity causes problems because it is impossible to determine unique contribution to a factors of variables that are highly correlated in multiple regression and the same case for factor analysis (Field, 2013).Therefore, any variables that either do not correlate with any other variables or that correlate very highly with other variables must be eliminated.

. Table 4.2 presents the descriptive statistics for latent constructs along with their correlations, which are based on averages of items. And table 4.3 presents the collinearity statistics for latent constructs.

Table 4.2: Mean, Standard Deviation and Correlation between various constructs

	MrkD	CL	ID	KC	KS	KU	FPerf
Marketing Differentiation(MrkD)	1						
Cost Leadership(CL)	.621**	1					
Innovation Differentiation(ID)	.321**	.342**	1				
Knowledge Creation(KC)	.436**	.451**	.324**	1			
Knowledge Sharing(KS)	.522**	.431**	.243*	.706**	1		.
Knowledge Utilization(KU)	.451**	.431**	.350	.401**	.341**	1	
Firms' Performance(FPerf)	.441**	.411**	.250	.341**	.341**	.441**	1
Mean	3.341	3.210	3.621	3.451	3.512	3.521	3.35
Standard Deviation	.931	.780	.631	.612	.562	.63	.642

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed). N=315

Table 4.3. Collinearity Statistics

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	**Collinearity Statistics**	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	3.283	.187		17.591	.000		

enough to bias the estimates.If the variables have a close linear relationship, then the estimated regression coefficients and T-statistics may not be ableto properly isolate the unique effect or role of each variable and the confidence with which we can presume these effects to be true. The close relationship of the variables makes this isolation difficult (Gupta, 1999; Julie, 2005).

Innovation Differentiation	.024	.054	.031	.440	.660	**.556**	**1.798**
Cost Leadership Cost Differentiation	.079	.061	.107	2.51	.0194	**.402**	**2.487**
Marketing Differentiation	.153	.059	.204	2.611	.009	**.440**	**2.273**
Knowledge Creation	.040	.053	.051	2.753	.0045	**.587**	**1.704**
Knowledge Sharing	.028	.051	.041	2.545	.058	**.468**	**2.138**
Knowledge Utilization	.040	.017	.139	2.311	.021	**.754**	**1.326**

a. Dependent Variable: Firm Performance

From our investigation on the correlations (in table 4.3 above), the direction of relationships between five independent variables effects (Marketing Differentiation, Cost Leadership, Innovation Differentiation, Knowledge Creation, Knowledge Sharing) and firm performance were consistent with our hypotheses that correlation coefficient of all variables (r>0). That implies all variable changes in the same direction and the magnitude of the relation of majority of them are medium and some of them are even high. Furthermore, there are statistically significant(p<0.01)inter-correlations between the predictor variables, and all of the correlation coefficients *are below* the level considered to *be serious/harmful,* which is generally accepted as **0.80 or higher as *harmful*** (Licht,1995;Field,2005). Thus, independence among the predictor variables appears not to be in violation and multicollinearity is unlikely a problem.

Moreover, two final tests were conducted to assess the presence of multicollinearity (Table 4.3 above). First, the tolerance values for each predictor variable were calculated and none is found to be ***below 0.50.*** While Tolerance values ***at 0.10 or below*** indicate high correlation that *create problem of multicollinearity* (Hair et al., 1995). Second, the variance inflation factors (designated as VIF in the regression models table 3.3 above) for the independent variables are calculated and **are below 2.3**, which is well below the guideline of **10** recommended by (Mendenhall and Sincich, 1993; Field, 2013).*Given the VIF and tolerance levels found in the analysis, there is no problem with multicollinearity. Generally, based on the aforementioned criteria, all scales used in this study proved to be valid and reliable.*

5.3 Normality of Residuals (Normality Test)

To be sure that the model is a good one, it is important to examine the residuals. According to Darlington, (1968) the differences between the values of the outcome predicted by the model and the values of the outcome observed in the sample are known as residuals. Normality can further be checked through histograms of the standardized residuals (Stevens, 2009). Histograms are bar graphs of the residuals with a superimposed normal curve that show distribution. The residuals should follow a normal distribution about the predicted dependent variable with a mean score of 0 and standard deviation of 1. A mean of 0 indicates the line is in the middle of the points. Once again, some are above and some are below. The normal distribution was shaped like a bell—it is symmetric, and most points were in the middle, with fewer and fewer farther from the mean.

And the bell shape means that most points were close to the line, and there were fewer points farther from the line.

The histogram and p-p plot depicted in figure below shows that, the residuals seem normally distributed and the residuals were distributed with the approximate mean value of 0 and standard deviation of 0.991which was approximately 1. Thus, the model fulfilled the assumption of normally test.
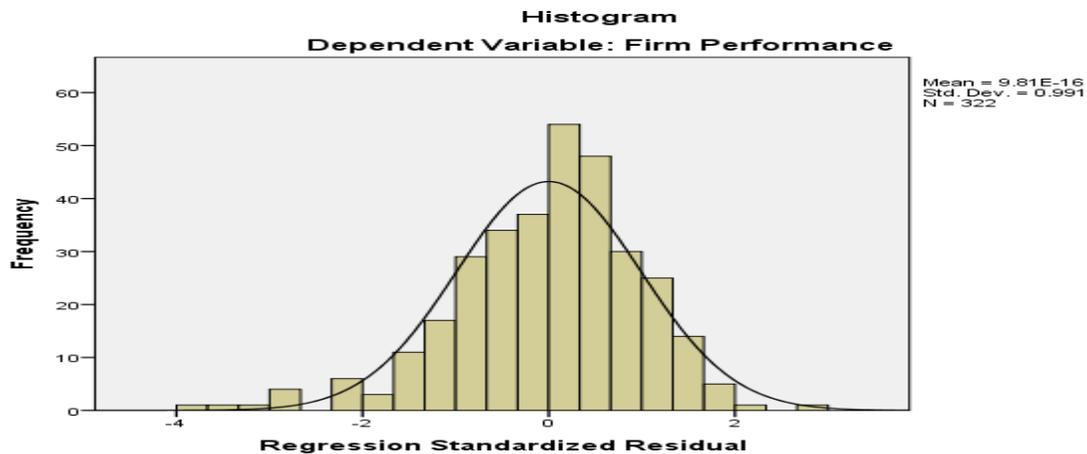

Figure.2 Normality of Residuals (Normality Test)

5.4 Test of linearity

According to Darlington (1968), Linearity defines the dependent variable as a linear function of the predictor (independent) variables Multiple regression can accurately estimate the relationship between dependent and independent variables when the relationship is linear in nature (Osborne & Waters, 2002).

This diagnostic test of linear regression assumes that the residuals should follow a straight-line in the Normal Probability Plot indicating that the relationship between the independent and dependent variable of the study was linear. As shown in figure below, the points lie in a reasonably straight diagonal line from bottom left to top right; it seems the linear regression fit the data on a straight line, which confirmed existence of linearity.
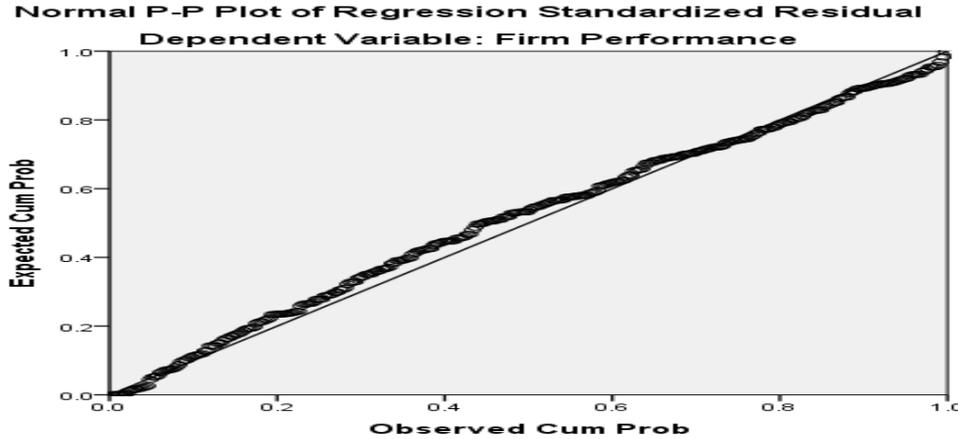
Fig.3 Test of linearity

5.5. Regression Analysis

Multiple regression analysis was carried out to test the combination marketing differentiation, cost leadership, innovation differentiation, knowledge creation, and knowledge sharing on firm performance. The various statistics results are reported in the following tables below.

Table.4.4 ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.568	6	1.428	3.457	.002[b]
	Residual	141.272	342	.413		
	Total	149.840	348			

a. Dependent Variable: Firm Performance
b. Predictors: (Constant), Knowledge Utilization, Innovation Differentiation, Knowledge Creation, Marketing Differentiation, Knowledge Sharing, Cost Leadership/low Cost Differentiation

Table 4.4 show model fit tested using ANOVA. So, that the model is significant (F = 3.457, p<.0001) that shows that the good model fit very well.

Table 4.5 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.689[a]	0.487	.441	.3871

a. Predictors: (Constant), Knowledge Utilization, Innovation Differentiation, Knowledge Creation, Marketing Differentiation, Knowledge Sharing, Cost Leadership/low Cost Differentiation

The result of table 4.5, that R^2 shows that 48.7 percent of firm performance variance is explained by the collective set of the predictors (marketing differentiation, cost leadership, innovation differentiation, knowledge creation, and knowledge sharing). This shows that these four variables only have less explained firm performance. Therefore, other variables should be considered to explain the dependent variable more.

Table 4.6 Regression Analysis

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	3.283	.187		17.591	.000
Innovation Differentiation(ID)	.024	.054	.031	.440	.0460
Cost Leadership(CL)	.079	.061	.107	2.51	.0194
Marketing Differentiation(MD)	.153	.059	.204	2.611	.009
Knowledge Creation(KC)	.040	.053	.051	2.753	.0045
Knowledge Sharing(KS)	.028	.051	.041	2.545	.048
Knowledge Utilization(KU)	.040	.017	.139	2.311	.021

a. Dependent Variable: Firm Performance

Model: FirmPerf = 3.23+ .024**ID**+.08**CL** + 0.15**MD** + .04**KC**+ .02**KS**+.040**KU** + e_4

Table 4.6, presents the summary of results of regression analysis. In the model the effect of *marketing differentiation, cost leadership, innovation differentiation, knowledge creation, and knowledge sharing* on firm performance were tested. Accordingly, marketing differentiation has high positive effect ($p<.05$, weight=.153) on firm performance. This result shows that for every single unit of increase in market differentiation result increasing of 0.153units of firm performance while cost leadership has the second high positive significant effect ($p<0.05$, weight of .079) on firm performance. This result suggests that for every single unit of increase in cost leadership result increasing of 0.079units of firm performance.

Similarly, knowledge creation or knowledge sharing, has high positive effect ($p<.05$, weight=0.040) on firm performance. This result shows that for every single unit of increase in either knowledge creation or knowledge sharing result increasing of 0.04units of firm performance.

In addition, knowledge utilization, has high positive effect ($p<.05$, weight=0. 028) on firm performance. This result shows that for every single unit of increase in knowledge utilization result increasing of 0.04units of firm performance. Similarly, innovation differentiation significantly affect the performance of firms.
Generally, the findings of correlations and regressions are summarized as follows.

Hypothesis	Decision
Hypothesis 1_1 : Knowledge creation positively affect performance of firms	Supported
Hypothesis 1_2:Knowledge sharing positively affects performance of firms	Supported
Hypothesis 1_3:Knowledge utilization positively affects performance of firms	Supported
Hypothesis 2_1 : Innovation Differentiation positively affect performance of firms	Supported
Hypothesis 2_2:Cost Leadership positively affects performance of firms	Supported
Hypothesis 2_3:Marketing Differentiation positively affects performance of firms	Supported

| Hypothesis (H₃):Knowledge creation, knowledge sharing knowledge utilization, marketing differentiation, cost leadership, marketing differentiation and performance of firms have positive relationship | Supported |

6. Conclusion, Recommendation, and Research Limitations and Future Research Directions

6.1 Concussion

According to the current study, marketing differentiation and cost leadership the most determinants of firm performance. This implies that for small and medium firms more focusing on marketing differentiation and cost leadership that can contribute for the superior performance of the firm

In addition, in knowledge management capacity, knowledge creation and knowledge sharing are the most determinants of firm performance. This implies that knowledge is the most suitable tool for the achievement of sustainable competitive advantage. It realizes, as knowledge is the most complex and difficult to copy resource, which provides knowledge-based view with gravity.

6.2 Recommendations

According to the major findings of current study and the above conclusion, in competitive strategy marketing differentiation and cost leadership the most determinants of firm performance. In addition, in knowledge management capacity, knowledge creation and knowledge sharing are the most determinants of firm performance.

Therefore, it is advisable for small and medium firms more focus on marketing differentiation and cost leadership, knowledge creation and knowledge sharing among staffs that can contribute for the superior performance of the firm.

6.3 Research Limitations and Future Research Directions

Our study is not without limitations, but also throws open opportunities for future research. One of the limitations is that the data we used, although original and derived from field research, is cross-sectional. This has prevented us from examining the effect of changes over time in firm behavior on superior performance of the firm. Similarly, the lack of longitudinal data reduces confidence in causal effects, especially in the case of such relationships, which have not been so extensively examined in the literature, such as the relationship between financial success and product innovation success. Therefore, an important step for further research is the collection and analysis of longitudinal data to rule out alternative explanations.

From finding of the effect of marketing differentiation, cost leadership, innovation differentiation, knowledge creation, and knowledge, sharing on firm performance only 48.7% of the variance was explained. Therefore, it can be presumed that the balance of 52.3% may be accounted for by other factors not considered in this study that necessitate further investigation.

Therefore, it is advisable for future researchers to incorporate other external and internal factors that can contribute for the superior performance of the firm.

In addition, type of sample firms may have an effect on how/types of knowledge management capacity and competitive strategy applied. In this study, we used some various types of firms from manufacturing sectors as general. This may limit the homogeneities of information and generalizability of the results to other industries. Nevertheless, the lessons drawn from this study may be relevant for similar SMEs; it is recommended that for further studies using specific manufacturing company to get homogeneous information. Similarly, another sample-based limitation of this study is the survivorship bias, as this study only examined entrepreneurs currently in business. An assessment of those entrepreneurs who were not successful would enhance the understanding of marketing differentiation,cost leadership, innovation differentiation, knowledge creation, and knowledge sharing and its relationship with failures of firms.

Another limiting issue is the geographical limits of the study. The firms were selected for this research is from the Ethiopia, Shagar City. Therefore, small and medium firms in other parts of the country and the world shall also be studied to verify and generalize the results in this study.

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