

**Organizational Learning, Competitive Advantage and Firm
Performance: An Empirical Study of Kenyan Small and Medium
Sized Enterprises in the Manufacturing Sector**

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ABSTRACT

Theorists argue that in volatile environments the capacity to learn faster than competitors may be the only sustainable competitive advantage. This study proposed that, through organizational learning a firm can develop hard to imitate knowledge resources and capabilities (human capital as well as organizational capital) that create value which in turn lead to superior performance.

While there is little opposition to the premise that organizational learning is a competence that all organizations including small and medium-sized enterprises (SMEs) should develop in fast-changing and competitive environments, most literature has not clearly linked organizational learning with sustainable competitive advantage. The purpose of this study was, therefore, to explore and examine the effect of interactive relationship between organizational learning, intellectual capital elements, and SMEs' outcomes or performance. Specifically, it dealt with how organizational learning process can be used to develop knowledge resources and capabilities that lead to superior performance of SMEs.

The study targeted all SMEs in food and beverage sub-sector with a total of 112 firms constituting of 21% of all firms in the manufacturing sector. A two-stage sampling was carried out where the firms were divided according to sub-sectors and then one sub-sector (food and beverage) was randomly selected and all firms in the sub-sector were involved. For inclusion in the sample, firms were required to have between 10 and 150 employees and be autonomous trading entities, but not branch plants of national or multi-national organizations. The data for the study was collected from 48 firms that met the sampling criteria out of 53 firms that responded to the mail survey.

Since the study was concerned with the relationships between observed and latent variables, structural equation modeling and other multivariate statistical tools were used to analyze the data. Although the research model argued for an almost complete mediation relationship, which follows the theoretical argument of the resource-based view, the results of the study indicate that organizational learning influences SMEs performance both directly and indirectly. These results are consistent with earlier empirical research on the relationship between organizational learning and firm performance. Although the results of this study are quite encouraging, lack of longitudinal data limit drawing of far-reaching conclusions.