

## Abstract

Empirical evidence on the influence of firm level institutions on firm performance is inconclusive. While some studies have advanced the moderation effect, others have renounced it. Thus, this study performed multiple linear regression analysis to test the moderation effect of firm level institutions on the relationship between strategy and firm performance. The study was conducted as a cross-sectional survey covering 314 small and medium enterprises in the non-timber forest products sub-sector in nine counties of Kenya. The coefficient of determination, F-statistic, and t-value were used in presenting fit of the model and the relationship between variables. It was observed that the resource based and administrative based firm level institutions significantly influenced the relationship between competitive strategy and performance of non-timber forest products small and medium enterprises. The conditions for moderation effect were made demonstrating that causal effect of competitive strategy on firm performance as moderated by firm level institutions. This demonstrated that improved performance was visible with only firms that had manifested firm level institutions to implement competitive strategy. It was concluded that firm level institutions enhance relationship between competitive strategy and firm performance by defining milieu in which strategy choices are made and implemented. Thus, firms should enhance their capacities through appropriate staff recruitment policies and development to manifest right firm level institutions. This study enriches institutional theory by adding some insights that firms require resources and administrative systems that form internal institutional milieu to drive through strategy choices to achieve competitiveness and performance.

Keywords: Competitive Strategy, Firm Level Institutions, Firm Performance, Moderation, Non-timber Forest Products, Small and Medium Enterprises