

INFLUENCE OF ENTREPRENEURIAL ORIENTATION ON GROWTH OF MICRO AND SMALL ENTERPRISES IN KERUGOYA, KENYA

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ABSTRACT

Entrepreneurial activity in Kenya is considered as a significant way to address the prevalent high levels of poverty and unemployment. The Micro and Small Enterprises sector is regarded as the driving force to spur economic growth, innovation and job creation. In tandem with the rest of the world Kenya is experiencing transformative shifts in population demographics, technological changes, fluctuating economies and other dynamic forces. Consequently, SMEs are facing tremendous competitive challenges and threats to survive. The role and importance of SMEs is widely appreciated and acknowledged and the Kenyan government has increased emphasis on Small and Micro entrepreneurship. Despite the significant role played by MSEs in Kenya, they are still faced with constant threat of failure. The study examined the influence of Entrepreneurial Orientation on growth of Micro and Small Enterprises in Kerugoya, Kenya. The following specific objectives guided the study: To find out the effect of innovativeness on growth of Micro and Small Enterprises in Kerugoya, Kenya; to evaluate the extent to which risk taking influences growth of Micro and Small Enterprises in Kerugoya, Kenya; to assess the effect of pro-activeness on growth of Micro and Small Enterprises in Kerugoya, Kenya; and, to explore the influence of entrepreneurial managerial competence on growth of Micro and Small Enterprises in Kerugoya, Kenya. The research adopted a descriptive research design. The study targeted 1420 MSEs in Kerugoya town which are registered with Ministry of Trade of the

Kirinyaga County. Secondary and primary tools were used for data collection. Analysis was conducted via descriptive statistics. Frequency distribution tables were used for summarizing data. In addition percentages, graphs, and pie charts complemented the analysis. The Statistical Package for Social Sciences (SPSS) version 20 was used, being a relatively recent and advanced version of SPSS. Inferential statistics was used to measure relationships between the variables of the study. A multivariate regression model was applied to examine the influence of Entrepreneurial Orientation on growth of MSEs. The study found that the dimensions of EO (innovativeness, risk taking, pro-activeness, and entrepreneurial managerial competence have a significant positive influence on growth of Micro and Small Enterprises. Both regression and correlation results indicated that innovativeness (pvalue=0.000) had an effect on growth of MSEs; results also revealed that risk taking (pvalue=0.000) had an effect on growth of MSEs; pro-activeness (pvalue=0.000) was also statistically significant and entrepreneurial managerial competence (pvalue=0.000) had an effect on growth of MSEs. Innovativeness was the most significant with correlation coefficient of 0.915 elements of Entrepreneurial Orientation influencing growth of small and medium enterprises in Kerugoya. The study recommends that MSE owners should be open and keen to take up EO at higher levels in order to bolster their growth, competitiveness, profitability and survival. As well, they should innovate to exploit change as an opportunity for different businesses or services. Further, they should strive to identify possible emerging problems and find solutions for them, to gain competitive advantage, as well as seek to acquire entrepreneurial managerial competencies.

Keywords: *Influence of Entrepreneurial Orientation on Growth of Micro and Small Enterprises.*

Introduction

Throughout the world, shifts in population demographics, technological changes, fluctuating economies and other dynamic forces have transformed societies as never before, bringing new challenges and opportunities to the forefront. Among the responses to these shifting forces is an increased emphasis on entrepreneurship by governments, organizations and the public (GEM Global Report, 2012). Micro and Small Enterprises (MSEs) play an important economic role in many countries the world over. Their activity is a source of new jobs and an important factor in a free-market economy; a significant impact on economic development and immense influence on

the market (Lukes & Laguna, 2010). Their contribution to economic development, income generation and poverty alleviation is widely recognized (ILO, 2007). As well, EO has been acknowledged as a determinant for a firm's growth and profitability. Certain studies relate high growth with a firm's entrepreneurial orientation (Brown, Davidson & Wiklund, 2001). High growth would be a result of innovativeness, pro-activeness and risk-taking orientation by the firm, the scopes which refer to an entrepreneurial orientation (EO). Furthermore, Hamel (2000) has posited that in current business environments, where product and business model life cycles are shortened such characteristics are positively associated with better performance.

Entrepreneurial orientation has been conceptualized as the process and decision making activities used by entrepreneurs that leads to entry and support of business activities (Kropp, Lindsay & Shoham, 2006); and as the strategy- making processes that provide organizations with a basis for entrepreneurial decisions and actions (Wiklund & Shepherd, 2003). Further, EO has been conceptualized as comprising three dimensions namely; innovativeness, risk-taking and pro-activeness (Frank, Kessler & Fink, 2010). Thus, entrepreneurial orientation (EO) generally considered as a key ingredient for the success of a firm. Frank, Kessler and Fink (2010) define EO as a firm's strategic orientation, one which captures the specific entrepreneurial aspects of decision-making styles, methods, and practices. Their analysis indicate a positive connection between EO and business performance only in cases in which a dynamic environment is combined with high access to financial capital and when a stable environment is combined with low access to financial capital. Other research has established that significant associations do exist between entrepreneurial orientation and contextual factors, and between contextual factors and entrepreneurial orientation dimensions as predictors of entrepreneurial performance, with respect to earnings and continuance satisfaction (Callaghan, 2009). Other analysis also indicates that EO may have a negative effect on performance in certain configurations (Frank, Kessler & Fink, 2010). While a firm's entrepreneurial processes might help the chase of new entry opportunities that enhance its performance, the adoption of a strong entrepreneurial orientation (EO) is considered necessary but insufficient for wealth creation by new ventures (Ireland, Hitt, & Sirmon, 2003).

EO has primarily been discussed from a firm level perspective (e.g., Covin & Slevin, 1991; Lumpkin & Dess, 1996); as well as from individual level perspective which investigates the relationship between business owners' EO and business performance (Krauss et. al., 2005).

According to Chandy and Narasimhan (2011), nearly all firms including startups, global partner alliances and major corporations are determined to make full use of opportunities in the product market by the means of visionary, innovative and proactive behavior.

Statement of the Problem

Micro and Small Enterprises (MSEs) play an important economic role in many countries the world over. Their contribution to economic development, income generation and poverty alleviation is widely recognized (ILO, 2007). According to RoK (2014) MSEs contributed over 70% of GDP in 2013, in Singapore 47% (SMU, 2008), in Tanzania 33% (Madata, 2011).

The background information of the study indicates that MSEs are faced by constant threat of failure and most do not graduate into large enterprises (World Bank, 2014; RoK, 2005). Past studies indicate that the MSEs sector in Kenya is characterized by high mortality rate (RoK,2005); three out of five fail within the first few months of operation (Bowen, Morara & Mureithi, 2009; RoK, 2013); over 60% fail each year (KNBS, 2007); and most do not survive to their third anniversary (Ngugi, 2013). Many countries, it is noted, are not making full use of their entrepreneurial potential (Bosma et al., 2008), and lack of ability among African countries to identify and seize business opportunities (Bokea, Dondo, & Mutiso, 1999; Olawale, 2010). Many MSEs are generally low margin, ‘me too’ businesses, have very little differentiation and are survival or necessity driven (The Guardian, 2014). This implies that MSEs in Kenya may be lacking EO.

Entrepreneurial orientation has been acknowledged as a key determinant for a firm’s growth and profitability. It has been related to high firm growth (Brown, Davidson & Wiklund, 2008), superior performance (Mahmood & Hanafi, 2013), and longevity (Soininen, 2013). High adoption of innovativeness, risk-taking and pro-activeness is seen as a key ingredient to success of firms. (Frank, Kessler & Fink, 2010).

Would lack of EO among Kenyan MSEs account for their high mortality rate and stagnation? The literature available shows that EO is a key ingredient for MSEs growth. Most of the studies conducted on the influence of EO have focused on the developed countries outside Africa. Kenyan MSEs significantly contribute to the economy, yet there is little or no empirical evidence available to this study on the influence of EO on growth of MSEs in Kenya. This study aimed at filling this gap.

Objectives of the Study

General Objective

The purpose of this study was to investigate influence of entrepreneurial orientation on growth of Micro and Small Enterprises in Kerugoya, Kenya.

Specific Objectives

- i. To find out the effect of innovativeness on growth of Micro and Small Enterprises in Kerugoya, Kenya.
- ii. To evaluate the extent to which risk taking influence growth of Micro and Small Enterprises in Kerugoya, Kenya.
- iii. To assess the effect of pro-activeness on growth of Micro and Small Enterprises in Kerugoya, Kenya.
- iv. To explore the influence of entrepreneurial managerial competence on growth of Micro and Small Enterprises in Kerugoya, Kenya.

Literature Review

Schumpeter's Innovation Theory

Schumpeter (1934; 1942) pioneered in highlighting the role of innovation in the entrepreneurial process. Schumpeter (1942) describes a process of “creative destruction” where wealth creation occurs through disruption of existing market structures due to introduction of new goods and/or services that cause resources to move away from existing firms to new ones thus allowing the growth of the new firms. Accordingly, Schumpeter calls innovation the specific tool of entrepreneurs, the means by which entrepreneurs exploit change as an opportunity for a different business or a different service. Schumpeter (1942) stressed the role of entrepreneurs as primary agents effecting creative destruction, and emphasized to the entrepreneurs the need to search purposefully for the sources of innovation, the changes and their symptoms that indicate opportunities for successful innovation; as well as their need to know and to apply the principles of successful innovation.

This Schumpeterian vein of thinking has been carried forward by successive scholars and researchers (Drucker 1985; Lumpkin & Dess, 1996; Shane, Covered & Westhead, 1991). On his part, Drucker (1985) held out the entrepreneur always searching for change, responding to it, and

exploiting it as an opportunity, and engaging by this means in purposeful innovation. Lumpkin & Dess (1996) saw the process of creative destruction as initiated by an entrepreneur, which makes innovation an important success factor within EO. Furthermore, the link between entrepreneurship and innovativeness is supported by the results of Shane, Kolvereid and Westhead (1991), who found that innovation is among the key motives to start a business.

Schumpeterian growth theory supposes that technological progress comes from innovations carried out by firms motivated by the pursuit of profit. That is, each innovation is aimed at creating some new process or product that gives its creator a competitive advantage over its business rivals; it does so by rendering obsolete some previous innovation; and it is in turn destined to be rendered obsolete by future innovations (Schumpeter, 1934).

Osaze (2003), views pro-activity as defining one's goals and future and arriving there as planned; a state of mind and the will, largely driven by one's consciousness, to sustain a vision, to fulfill a mission, to attain a challenging goal and to achieve a define objective; as envisioning a future towards which one devices the strategic parameters for influencing, impacting and recreating the environment within which to operate in line with that vision; a determination to excel in one's own chosen field; and to pursue and attain one's own goal largely defined by one. Entrepreneurial pro-activeness can also be seen as alertness of the company. According to Alvarez and Barney (2002) entrepreneurial pro-activeness is the ability of the firm to predict where products/services do not exist or have become unsuspected valuable to customers and where new procedures of manufacturing are unknown to others become feasible. Kirzner (1997) calls it "flashes of superior insight". The proactive company focuses on the past, the present and the future with equal zeal, using history to explain and fully understand the present and to challenge and create its own proactive future (Osaze, 2003).

Innovation is vital to entrepreneurship since it is part of a country's economic growth. In the opinion of Ling, et al. (2008), countries with the largest economies can be associated with great commitment to innovation and research. Currie, et al. (2008) posits that in an external setting that is ever changing, innovation and entrepreneurial conduct are processes that are holistic, vibrant and complementary fundamental to an organization's sustainability and success.

Entrepreneurial Orientation Theory at Individual Level

Entrepreneurial theories relate to the individual or the enterprise (Callaghan, 2009). At the individual level of entrepreneurship, the origins of definitions of entrepreneurship go back to Cantillon's definition (circa 1700) of an entrepreneur as a rational decision maker who assumes the risk and provides management for the firm. The entrepreneur is also seen as an economic actor having a driving force for economic development (Schumpeter, 1934; Kirzner, 1997). Schumpeter (1934) viewed entrepreneurs as revolutionaries of the economy whose economic function is the realization of new combinations in the course of which they are the active element while McClelland's (1961) theory relates to entrepreneurs as having a higher need for achievement (Callaghan, 2009). Callaghan (2009) adds to the Schumpeterian spectrum of EO, two dimensions; Learning and Achievement orientations.

The individual level theoretical basis of entrepreneurship has not been without criticism. For instance, Shapero and Sokol (1982) criticize individual centered perspectives of entrepreneurship and argue against McClelland's (1961) need-for-achievement theory on the deficiency of the theoretical process resulting in what they call "an oversimplification of the subject". As well, Shane (1996) argues that the "trait" approach, whereby an individual's distinguishing characteristics, including personality characteristics, are related to entrepreneurial variables, is often studied according to a flawed approach. However, Mappiagu and Agussalim (2013) report that a number of research studies have argued the need for small firm entrepreneurs to develop entrepreneurial and managerial competencies as proper allocation of these two roles crucially underpin small firm survival (e.g., Inyang & Enuoh, 2009; Silinevica, 2011; Peljhan, 2012).

Entrepreneurial Orientation theory at Firm Level

At the firm level, Callaghan (2009) notes that the currently prevalent firm level EO was originally developed with the psychological claim to distinguish between managers and business owners and laments that it was abandoned in a still quasi-psychological stage before individual EO-success relationships were even investigated. According to Covin and Wales (2011) the theoretical foundation of EO research is traceable to Mintzberg (1973), Khandwalla (1976, 1977), Miller (1983) Covin & Slevin (1989), Miller & Friesen (1982); and Lumpkin & Dess (1996). One of the strategy – making modes put forth by Mintzberg (1973) is the entrepreneurial one which is based on active search for entrepreneurial opportunities and growth. The other

modes include planning - concerned with systematic information gathering for situational analysis, generation of alternate and selection of appropriate strategies; and the adaptive mode which focuses on reactive solutions than proactive search for new opportunities. Support for the entrepreneurial mode is given by Khandwalla (1976/1977) who refers to entrepreneurial management style as consisting bold, risky and aggressive approach to decision-making in contrast to a more cautious stability-oriented approach. According to Miller (1983) an entrepreneurial firm is one that engages in product market innovation, undertakes somewhat risky ventures, and is first to come up with proactive innovations, beating competitors to the punch. On their part, Covin and Slevin (1989) contrast firms operating in hostile competitive environments, characterized by intense rivalry among firms with firms that operate in more benign competitive settings and reported that the former tended to adopt innovations with greater frequency than the latter. Miller (1983) used the dimensions of innovativeness, risk taking and pro-activeness to characterize and test entrepreneurial orientation, while Lumpkin & Dess (1996) expanded the numbers of dimensions to include competitive aggressiveness and autonomy.

Empirical Review

The study by Fatoki (2014) investigated the entrepreneurial orientation of micro enterprises in the retail sector in South Africa and the results revealed adeptness by micro enterprises at introducing new product lines and also at making changes to the product line, but weakness in research and development, pro-activeness and risk-taking. Ngugi (2013), conducted a study on influence of intellectual capital on the growth of small and medium enterprises in Kenya. The findings of the study revealed that the components of Intellectual Capital such as managerial skills, entrepreneurial skills, and innovativeness of the owner/managers have major positive significance contribution to the growth of SMEs in Kenya.

The study by Ligthelm (2010) primarily aimed at calculating the survival rate of small businesses within the rapidly changing trade environment based on longitudinal empirical surveys, with particular emphasis placed on the role of entrepreneurship in small business survival. The two research questions of the study were the ability of small informal businesses to survive amidst a heightened level of competition from large formal businesses and the variables instrumental in ensuring sustainability of survivors. Findings from longitudinal surveys among a panel of 300 small businesses in Soweto between 2007 and 2009 were modeled through a categorical

regression model with business survival as dependent variable. The findings suggested that entrepreneurial acumen and business management skills be classified as the strongest predictors of small business survival. Hence, the ability to adjust one's business model to adapt to changed economic circumstances is an important characteristic of entrepreneurial conduct that ultimately dictates survival in increasingly competitive economic environments (Ligthelm, 2010).

According to Dess and Lumpkin (2005), organizations and their executives face three types of risk; business risk, financial risk, and personal risk. Business risk refers to the risk of entering untested markets, or committing to unproven technologies. Financial risk is related to heavy borrowing or committing a significant amount of resources for growth. Firms with an EO often engage in risky activities, such as high leveraging and large resource commitments in the desire of gaining high returns by pursuing opportunities in the market. Personal risk is related to a person, normally an executive, who decides to favor a certain strategic course of action.

The risk here stems from the influence the executive has on the direction of the company, which can in case of failure also lead to personal consequences (Dess & Lumpkin, 2005). In the context of business, in practice all business endeavors entail some degree of risk. However, risk taking is not gambling in the context of EO, but moderated and calculated. Thus, it does not refer to extreme and completely uncontrolled risky endeavors even though the consequences of an act cannot be known (Dess & Lumpkin, 2005).

Data Analysis/Findings

Regression Analysis

Data analysis was also done using a linear multiple regression model in the form of;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \mu$$

Where Y = Growth of MSES which was the dependent variable of the study, X₁, X₂, X₃ and X₄ represented innovativeness, risk taking, pro-activeness and Entrepreneurial managerial competence which were the independent variables.

Table 4.12 shows that the coefficient of determination also called the R square is 90.9%. This means that the combined influence of the predictor variables (innovativeness, risk taking, pro-activeness and managerial competence) explains 90.9% of the variations in growth of MSEs. The correlation coefficient

of 95.3% indicates that the combined influence of the predictor variables has a great positive correlation with growth of MSEs.

Table 4.12: Multivariate Regression Model Fitness

Indicators	Coefficient
R	0.953
R Square	0.909
Std. Error of the Estimate	0.184

Analysis of variance (ANOVA) on Table 4.13 shows that the combined effect of innovativeness, risk taking, pro-activeness and managerial competence was statistically significant in explaining changes in growth of MSEs. This is demonstrated by a p value of 0.000 which is less than the acceptance critical value of 0.05.

Table 4.13: Analysis of Variance (ANOVA)

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	44.651	4	11.16	328.457	0.000
Residual	4.486	132	0.034		
Total	49.137	136			

Table 4.14 displays the regression coefficients of the independent variables. The results reveal that innovativeness, risk taking, pro-activeness and managerial competence were positively and statistically significant in explaining the growth of MSEs. The findings imply that all the independent variables were strong determinants of growth of MSEs.

The results indicate that; an increase in the effectiveness of innovativeness by one unit leads to an increase in growth of MSEs by 0.430 units; an increase in the effectiveness of risk taking by one unit leads to an increase in growth of MSEs by 0.337 units; an increase in the effectiveness of pro-activeness by one unit leads to an increase in growth of MSEs by 0.301 units; an increase in the effectiveness of managerial competence by one unit leads to an increase growth of MSEs by 0.402 units.

Table 4.14:Regression Coefficients

Variable	Beta	Std. Error	t	Sig.
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(Constant)	0.431	0.159	2.711	0.041
Innovativeness	0.43	0.065	6.618	0.000
Risk-taking	0.337	0.063	5.346	0.000
Proactiveness	0.301	0.061	4.934	0.000
Managerial Competence	0.402	0.071	5.661	0.000

4.7 Discussion of Findings

Descriptive results indicate majority of the respondents agreed that innovativeness had an effect on growth of Micro and Small Enterprises. This was supported by a mean of 4.28 and a standard deviation of 0.67.

Inferential statistics showed that the correlation between growth of micro and small enterprises and innovativeness was strong and positive (0.915) and significant (0.000). The regression results indicate that an increase in the effectiveness of innovativeness by one unit leads to an increase in growth of MSEs by 0.430 units.

The findings agree with those in Dess and Lumpkin (2005) that innovativeness was of high importance because as the markets nowadays change in a rapid pace, maintaining competitive advantage is crucial and innovativeness is crucial as it can be a source of significant progress and growth for a firm.

Descriptive results indicate that majority of the respondents agreed that risk taking influences growth of micro and small enterprises. The findings are supported by a mean of 3.63 and a standard deviation of 1.03.

The findings agree with those in Dess and Lumpkin (2005) who found that firms with an EO often engage in risky activities, such as high leveraging and large resource commitments in the desire of gaining high returns by pursuing opportunities in the market.

Inferential statistics indicated that the correlation between the growth of micro and small enterprises and risk taking was strongly positive (0.884) and significant. Regression result indicated that an increase in the effectiveness of risk taking by one unit leads to an increase in growth of MSEs by 0.337 units.

Descriptive results indicate that pro-activeness influences growth of micro and small enterprises. The findings are supported by a mean of 3.87 and a standard deviation of 1.27.

Inferential statistics indicated that the correlation between the growth of micro and small enterprises and pro activeness was strong and positive (0.897) and is statistically significant at a p value of 0.000. Regression result indicated that an increase in the effectiveness of pro activeness by one unit leads to an increase in growth of MSEs by 0.301 units.

The findings agree with those in (Oni, 2012) whose study concluded that the enterprises performance was a function of a wider based entrepreneurial pro-activeness.

Descriptive results indicate that entrepreneurial managerial competence influences growth of micro and small enterprises. The findings are supported by a mean of 4.36 and a standard deviation of 0.64.

Inferential statistics indicated that the correlation between the growth of micro and small enterprises and entrepreneurial managerial competence was strong and positive (0.908) and is statistically significant at a pvalue of 0.000. Regression result indicated that an increase in the effectiveness of managerial competence by one unit leads to an increase growth of MSES by 0.402 units.

The findings concur with those in (Sanchez, 2011) who found that entrepreneurial competencies played an important role in enhancing firm performance, having both direct and indirect effects on firm performance.

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