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MARKET, ENTREPRENEURIAL ORIENTATIONS AND PERFORMANCE OF SMES HOTELS IN NANYUKI TOWN, KENYA.

Mary Wanjira Nduriri and Dr. Mary Namusonge





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1*Mary Wanjira Nduriri,Department of Business Administration,Kenyatta University, Kenya

^{1*}Corresponding author: Email marynduriri20@gmail.com

²Dr Mary Namusonge Department of Business Administration, Kenyatta University, Kenya.

mjabeya@gmail.com

Abstract

Purpose: The study sought to investigate the effect of market (MO) and entrepreneurial orientation (EO) on the performance of SMEs hotel enterprises in Nanyuki town, Kenya.

Methodology: A sample size of 30 SMEs hotels who are registered with Laikipia County revenue collection office was selected using simple random sampling technique. 24 completed questionnaires were returned showing a response rate of 80%. Data was analyzed with the aid of statistical package for social sciences (SPSS) computer software. Correlation, Anova and Multiple regressions were the main analysis tools.

Findings: The results of the study indicated that market and entrepreneurial orientations have a positive influence on the performance of the small-scale hotels. The six independent variables that were studied, explain 74.5 % of the performance of the SMEs hotels in Nanyuki town.

Unique contribution to the theory, practice and policy: The policy makers will be able to obtain a clear guide on policy direction with respect to market and entrepreneurial orientation for further improvements of small and medium hotel enterprises in Kenya. Further, the study will increase the knowledge and awareness to the hotel managers on how to create customer value and enhance competitiveness within the small and medium hotel enterprises in Kenya. The studies on market and entrepreneurial orientations will help in improving small and medium enterprises and in particular hotel performance toward achieving Kenya's objectives of vision 2030.

Keywords: Strategic orientations, entrepreneurial orientations, Market orientation, customer orientation

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1.0 INTRODUCTION

Success of firms depends on the adroit use of available resources to effectively respond to the dynamism in the external environment (Kumar *et al.*, 2011). Market, entrepreneurial, technology and customer orientations are some of the orientations that have been widely used by researchers to explain the strategic orientation of firms' phenomenon (Ledwith & Dwyer, 2009). Market oriented businesses are those that employ marketing ideas as their strategic equipment (Lamb, Hair & McDaniel, 2005). The marketing concept, holds that in order for firms to continuously remain ahead of competitors and for sustained success, they should create customer value through satisfied customers. Since, small scale hotel firms are closer to their customers; they are able to generate new knowledge through close contacts with their customers. Previous studies suggest that market orientation (MO) is positively linked with business success (e.g. Baker & Sinkula, 2009). Market orientation reflects the degree to which decision making in firms is driven by customer and competitor intelligence (Jaworski & Kohli, 1993). Ngo and O'Cass (2012) argue that firms should use strategies that keep them informed about customers so they are able to prioritize on satisfying customers.

According to Lan and Wu (2010), EO is being able to engage in innovative, risky as well as uncertain activities in the market place and precisely discovering new opportunities before the competitors do. The scope of EO take account of firms being: innovative, proactive and risktakers (Matsuno *et al.*, 2002; Miller, 1983). The components of strategic orientation are that an organization has a plan for the future. Firms which fail to make use of market and entrepreneurial orientations are not likely to survive in the turbulent business environment. Strategies can lead to high organisational performance, customer satisfaction, and increased competitiveness in the face of other rival businesses.

A number of studies have been done in the entrepreneurship field and entrepreneurial orientation in particular and most of these studies were conducted in US and others in Europe (Wales, Gupta & Mousa, 2011). Previous researches (especially, the area of MO) have also analysed industrial firms (Megicks & Warnaby, 2008). Therefore, most of these previous research results in the areas of marketing and entrepreneurial orientations may not be generalizable to small-sized hotels in Kenya. There has been an insufficient study in the area of market and entrepreneurial orientation on performance of SMEs hotels in Kenya. This study therefore sought to investigate the effect of market and entrepreneurial orientations on the performance of small-scale hotels enterprises in Nanyuki, Kenya.

1.1 Statement of the Problem

Despite the role played by the small businesses sector in Kenya, the fail rate is quite high. Five out of seven new small businesses fail within the first year and over 90% of business start-up in Kenya fail at their third year (Njoroge & Gathungu, 2013).

In Kenya, very few enterprises have grown into large formal organizations. An adverse scenario that is apparently common among SMEs hotel business enterprises. This raises questions as to whether SMEs hotels in Kenya are well strategically oriented in terms of entrepreneurial and marketing orientation. Given this high failure rate of small hotel businesses in Kenya, then there is need to identify marketing and entrepreneurial strategies to improve their performance. Marketing and entrepreneurial orientations of SMEs hotels are some of the critical factors for their success. Most of the studies have concentrated on strategic orientations in Nairobi, Thika, Kiambu and Nandi. There lacks a specific study within the local context that has managed to address the effects of marketing and entrepreneurial orientations strategies on the performance



of SMEs hotels in Nanyuki Town, in particular. This study therefore is aimed at filling that missing knowledge gap.

1.2 General Objective

The general objective of the study is to examine the influence of marketing and entrepreneurial orientation on the performance of SMEs in Nanyuki Town, Kenya.

1.2.1. Specific Objectives

- i). To examine if there is a relationship between entrepreneurial orientation dimensions and the performance of SMEs hotel in Nanyuki Town, Kenya.
- ii). To determine if there is a relationship between marketing orientation and performance of SMEs hotels in Nanyuki Town, Kenya.

1.3 Area of the Study

The study was carried out in Nanyuki town, Laikipia County, in kenya. The target population consisted of 90 SMEs hotels in Nanyuki Town which are registered with Nanyuki town county government evidence from documents collected from the Revenue section of Town council (2016).

2.0 THEORETICAL REVIEW

2.1 Resource-Based View (RBV) Theory

Penrose (1959) was the first to discover the causal relationships among firm resources, production capability and growth rate of the firm. She believed on efficient and innovative use of resources hence RBV borrows most of its ideas from Penrose (1959) theory of enterprise growth. The RBV was first theorized in 1991. RBV model was used in the study and analysis of resource strategy relationships (Barney *et al.*, 2011).

Resource-Based View Theory agrees that a business's make the most of the resources at their disposal to achieve competitiveness and that internal resources to the business are said to be valuable, rare, and inimitable and have no close a substitute (Penrose, 1959). Such resources lead to superior performance of organizations. The resources are viewed as diverse among firms. The impact linked to strategic orientation on SMEs performance will differ from big businesses based on the resource allocation constraints and capabilities of the firm. According to resource-based view, firms achieve competitive edge only if they employ effectively in their operations; those resources that are unique, and heterogeneous from those of competitors (Barney, 2007). It follows then, that firms' strategic resources, are unique and heterogeneous, and they give the firm a plan and direction into the future, for better performance.



2.2 EMPIRICAL LITERATURE REVIEW

2.2.1 Strategic Orientation

According to Grant, 2002; Strategy is about ensuring the survival and prosperity of a firm hence, strategy provides a guide for organisations in meeting their overall goals. Strategic orientation reflects the strategic directions implemented by a firm to guide its proper activities for continuous superior performance. Viable strategic orientations include market, technology and selling orientations (Noble *et al.*, 2002), of which market orientation has received the most research attention.

2.2.2 Small and Medium Scale Enterprise Performance

According to Szilagi and Wallar (1980), Performance is a measure in which the resources available to firms are utilizes to achieve high productivity, effectiveness and efficiently. SMES performance is a measure of the degree of the goal attainment by the organisations. Firms that monitor performance are able to allocate their resources in future (Lin, 2005). There exist several measures of firm performance which may be financial or non-financial measures. These measures include profitability (eg.net profit, ROI) growth (e. g market share, turnover) and survival rate (Carton & Hofer, 2010).

2.2.3 Entrepreneurial orientation (EO) and firm performance

Lan and Wu (2010), defines EO as the willingness to engage in innovative, risky and uncertain activities in the market place, discovering new opportunities before their competitors. According to Zhang (2012), some of the three entrepreneurial orientation dimensions are: innovativeness, proactivenes and risk-taking.

Innovation is when the entrepreneurs engage in creativity and experimentation through launching new or improved products/services as well as new ideas. (Lumpkin & Dess, 1996). Innovativeness also involves improved technology which is researched and implemented ahead of competitors. According to Hughes and Morgan (2007), *proactivenes* is an aspect of entrepreneurial orientation which involves scanning of the environment continuously in order to predict new opportunities and be well ahead of the competitors. Firms with the attribute of proactivenes are forward looking.

Rauch *et al.* (2009) described that *risk taking* as the ability of the firm to engage in calculated risk, hire heavily and invest a major portion of firm's resources to venture into the uncertain and unknown outcome to grab business opportunities.

Studies have found that those businesses that adopt a more EO perform better (e.g. Brouthers *et al.*,2014). The findings conducted show that the level of entrepreneurial orientation has both direct as well as indirect effects on firm performance. The findings of a study conducted by Keh *et al.* (2007) show that the level of EO has both direct and indirect effects on firm performance. Faizol *et al.*, (2010) reported a significant and positive relationship between entrepreneurial orientation and firm performance. There is also recent evidence of the relatively strong relationship of EO in the service sector in general (Kraus, 2013) and hotels is a service sector.

The main proposition of entrepreneurial orientation is that organizations acting entrepreneurially are better able to adjust their operations in dynamic competitive environments This implies that the more SMEs implement entrepreneurially orientated strategies and behave in an entrepreneurially orientated manner, the more successful they are likely to be.

Based on the above literature review, we formulate the hypothesis of the study as:

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 H_{01} : Entrepreneurial Orientation in small hotel enterprises is positively related to the business performance.

2.2.4 Market Orientation concept and small-scale hotel performance.

The marketing concept holds that the key to organizational success is through the determination and satisfaction of the needs, wants, and aspirations of target markets (Mahmoud et al., 2011). Small scale hotels that are keen on creating high customer value are more likely able to be ahead of competitors and therefore able to achieve sustained success. Marketoriented firms are more effective in producing knowledge which leads to change of values and inevitably development and adoption of new work procedures (Vijande, et al., 2005). Organizations that are able to appreciate the value of timely and relevant information (marketorientation) will also be expeditious enough to utilize such information for productivity (Keskin, 2006). Since, small scale hotel firms are closer to their customers, they are able to generate new knowledge and exploit the existing knowledge effectively. Specifically, they develop intelligence about customers, from which they develop new knowledge and values that promote innovative products, processes, and services. In fact, market intelligence generation constantly improves and updates organization wide values and skills (Slater and Narver, 1995). Market oriented firms are those firms that embrace and use of the marketing orientation concepts in their business activities. According to Kohli and Jaworski (1993) market orientation from behavioural perspective is "the organizationwide generation of market knowledge pertaining to current and future customer needs, dissemination of intelligence across all the functional units of an organization as well as being responsive to this information".

Narver and Slater (1990) defined behavioural perspective in market orientation concept through three components of: customer orientation, competitor orientation, and an interfunctional coordination.

Customer orientation component is concerned with those activities that engage in acquiring and disseminating information about customers. Competitor orientation component, refers to those activities that seek to gather and disseminate information about competitors' strengths and weakness of the organisation. Inter-functional coordination, involves the dissemination of intelligence across functions in the organisation (Narver & Slater, 1990). Therefore, Smallscale hotels that embrace market orientated culture from the behavioural perspective are likely to outdo competitors due to superior performance.

In marketing literature, the positive influence of MO on performance is well documented (see e.g. Huhtala *et al.*, 2014; Liao *et al.*,2011). For example, a meta-analytical study by Kirca *et al.* (2005) summarizes empirical findings from the extensive marketing orientation literature and concludes that MO is a critical concept of business entities that aim to be successful. Pelham and Wilson (1996) identified that a high level of MO offers small firms a strong source of competitive advantage and performance.

Based on the above literature review, we hypothesize that:

 H_{02} : Market Orientation in small hotel enterprises is positively related to the business performance.



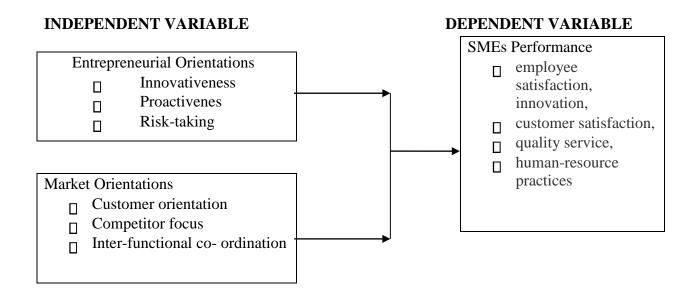


Figure 1: Conceptual framework

3.0 RESEARCH METHODOLOGY

3.1 Introduction

The chapter focuses on the research design, Population of the study, data collection techniques and instruments, sources and type of data, sampling design including sample size selection and sampling procedure, as well as techniques for data analysis.

3.2 Research Design

The descriptive research design was adopted. Entrepreneurial dimensions which comprised of innovativeness, pro-activeness and risk-taking and marketing dimensions of customer orientation, competitor focus, inter-functional organization were taken to be the independent variables while the dependent variable was the SMEs hotel performance in Nanyuki.

3.3 Population of the Study

The study focused on SMEs hotels in Nanyuki town that were registered by the Laikipia County Government by March 2016. The target population was therefore 90 SMES hotel enterprises. Respondents involved were the owner managers of the SMEs hotel business. The study administered one questionnaire to each business owner.

3.4 Sample size

The researcher randomly selected a sample size of 30% of the total SMEs hotel business. The accessible target population was 90 SMEs hotel businesses in Nanyuki town. Thus, the desired sample size was estimated as 27 calculated as shown.

30% of 90 hotels = 27 Hotels.



Table 1: Sample size distribution

Types of business	Number of SMEs hotels	30% of hotels	
SMEs hotels	90	27	

Source: Author 2016

3.5 Data Collection.

Structured and Unstructured questionnaire was used for collecting data from owner managers, employees and customers of the various SMEs hotels in Nanyuki. The questionnaire had four parts. Section A measured the personal and SME hotels profile. Section B captured data on innovativeness, proactiveness, and risk-taking and part C captured data on customer orientations, competitor focus and inter-functional organization co-ordination. Part D captured questions on the SMEs hotel performance in terms of employee satisfaction, innovation, customer satisfaction, service quality, human resource practices. The scale used 5-point Likert type response format ranging from much worse to much better.

A total of 45 hotels were sampled for the study. The set of questionnaire was personally administered to the respondents by the researcher herself with the help of the research assistants through drop and pick method. A maximum of three week was allowed. This method enabled proper profiling of respondents as well as provides a brief explanation on the purpose and importance of the study.

3.6 DATA ANALYSIS AND RESULTS

The data collected was analyzed with the aid of statistical package for Social Sciences (SPSS) Computer Software. Correction, Anova and Multiple regression were used as analysis tools

3.7 Regression Analysis

Multiple linear regression analysis was used in order to determine the relationship between the independent variables (Customer orientation, competitor focus, inter-functional co-ordination, innovativeness, proactivenes, risk-taking) and performance of the SMEs hotel firms in Nanyuki.The regression equation was

 $Y = b_0 + b_1 X_1 + b_2 X_2 + b_3 X_3 + b_4 X_4 + b_5 X_5 + b_6 X_6$

Whereby

Y = performance of SMEs hotels in Nanyuki

 X_1 = customer orientations

 $X_2 = competitor focus$

 X_3 = inter-functional co-ordination

 X_4 = proactivenes

 $X_5 = innovativeness$

 $X_6 = risk - taking$



As indicated in table 2, the results confirm that the three dimensions of EO and MO have a considerable influence on firm performance of the SMEs hotel sector in Nanyuki town. The model summary show an R value of 0.863, showing that there is a strong relationship between the performance of SMEs hotels in Nanyuki and the dimensions of EO and MO variables. The R square is 0.745. This indicate that 74.5 % of the variability in the performance of the SMEs hotel sector in Nanyuki town is explained by the entrepreneurial and market orientations dimensions studied as the explanatory variables. Other factors not studied in this research contribute 22.7% of the performance of the SMEs hotel sector

Table 2: Regression results for the Model.

Model R	R ² Adjuste	d R Standard Square	Error of Estimate	the	
1	0. 863	0. 745	0 .724	0 .4238	

ANOVA was used to test the significance of the model in predicting how Customer orientation, competitor focus, inter-functional organization, innovativeness, proactivenes and risk-taking influence Smes hotel businesses. Results of the study were shown in table 3. The significance value is 0.0241 which is less than 0.05 and this indicate that the model is statistically significance in predicting how, Customer orientation, competitor focus, inter-functional organization, innovativeness, proactivenes and risk-taking affect the performance of SMEs hotels in Nanyuki town. When hotel performance was regressed against the components of MO and EO, the ANOVA results showed the overall model was significant F (5,19=2.353, p<0.05).

Table 3: Anova Results for the Regression Model

Model		Sum of Squares	Df	Mean squares	F	sig
	Regression	2.431	5	1.247	2.353	0.0241
Total	Residual 10.743	8.312 24	19	2.316		

a Dependent Variable: small scale hotel Performance

b. Predictors: (Constant), Customer Orientation, Competitor focus, Inter-functional Coordination, proactivenes, risk-taking and innovativeness

Table 4: Coefficient of Determination

UNSTANDARDIZED Coefficient			STANDARDIZE Coefficient		
Model 1	В	Std. Err		Т	Sig.
Constant)	1.234	(1.3	35	1.615	0.029
Customer orientation	0.309	0.12	0.265	3.982	0.021
Competitor focus	0.564	0.24	0.076	3.643	0.023
Interfunctional coordination	0.783	0.22	0.186	3.782	0.022
Innovation	0.654	0.13	4 0.199	3.472	0.021
Proactivenes	0.453	0.21	7 0.167	4.726	0.022
Risk-taking	0.305	0.21	9 0.178	3.231	0.021

The regression equation will be;

 $Y=1.234+0.265X_1+0.076X_2+0.186X_3+0.199X_4+0.167\ X_5+0.178X_6$

The regression analysis has established that taking all factors constant at zero i.e Customer orientation, competitor focus, inter-functional organization, innovativeness, proactivenes and risk-taking then the SMEs hotel performance of in Nanyuki was 1.234. Refer table.

The findings presented also shows that, a unit increase in Customer orientation will lead to a 0.265 increase in the performance of the SMEs taking all other independent variables at zero. A unit increase in competitor focus results to a 0.076 increase in the of performance of the SMEs hotel businesses; a unit increase in inter-functional co-ordination will lead to a 0.186 increase in the performance of the SMEs hotel businesses; a unit increase in innovation will lead to a 0.199 increase in the performance of the SMEs hotel businesses; and a unit increase in proactiveness will lead to a 0.167 increase in the scores of performance of the SMEs hotel businesses, a unit increase in risk-taking will lead to a 0.178 increase in the scores of performance of the SMEs hotel. Hence, it follows then that, Customer orientation contribute most to the performance of the SMEs hotel businesses followed by innovation, in interfunctional co-ordination, risk-taking, proactivenes and finally competitor focus.

5.0 Conclusions

Correlation analysis results, show that there was a high correlation of 74.5 % between variables. Customer orientation contribute most to the performance of the SMEs hotel businesses; followed by innovation; then inter-functional co-ordination, risk-taking and Proactivenes while competitor focus contributed the least to performance of the SMEs hotels in Nanyuki. This study shows a

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positive and significant relationship between market orientation and entrepreneurial orientation and the small-scale hotel performance. Small scale hotels that take advantage of Market oriented strategies are able to outperform the competitors in the market and attain excellent performance through creation of superior customer value. At the same time, entrepreneurial orientation enables the SMEs hotels to exploit new opportunities that have not been discovered by competitors. They also engage and invest in risky and to some extent profitable ventures, where they introduce new products and services into the market.

5.1 Recommendations

The findings clearly indicate that there is a positive relationship between given MO and EO strategies and performance of the SMEs. Therefore owners/ managers of SMEs hotels should be encouraged to utilize both strategies as they will place the firm in a competitive edge. Policy makers and planners can use findings to foster the strategic orientations policy decisions. The results should urge SMEs Hotels to develop a more holistic view and awareness on the strategic directions of the firm. Directing the small-scale hotels based on a single philosophy, be it technology, customers, learning or entrepreneurial actions, is simply not adequate in competition against Hotels that have mastered the multiple orientations approach. A clear, multidimensional strategic orientation could serve as a powerful means of informing and communicating strategic pathways, and so help to empower people to make the smaller, daily decisions. The strategic orientation could serve as a device for assisting directors to approach problems from a holistic point of view that is not naturally familiar to them.

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