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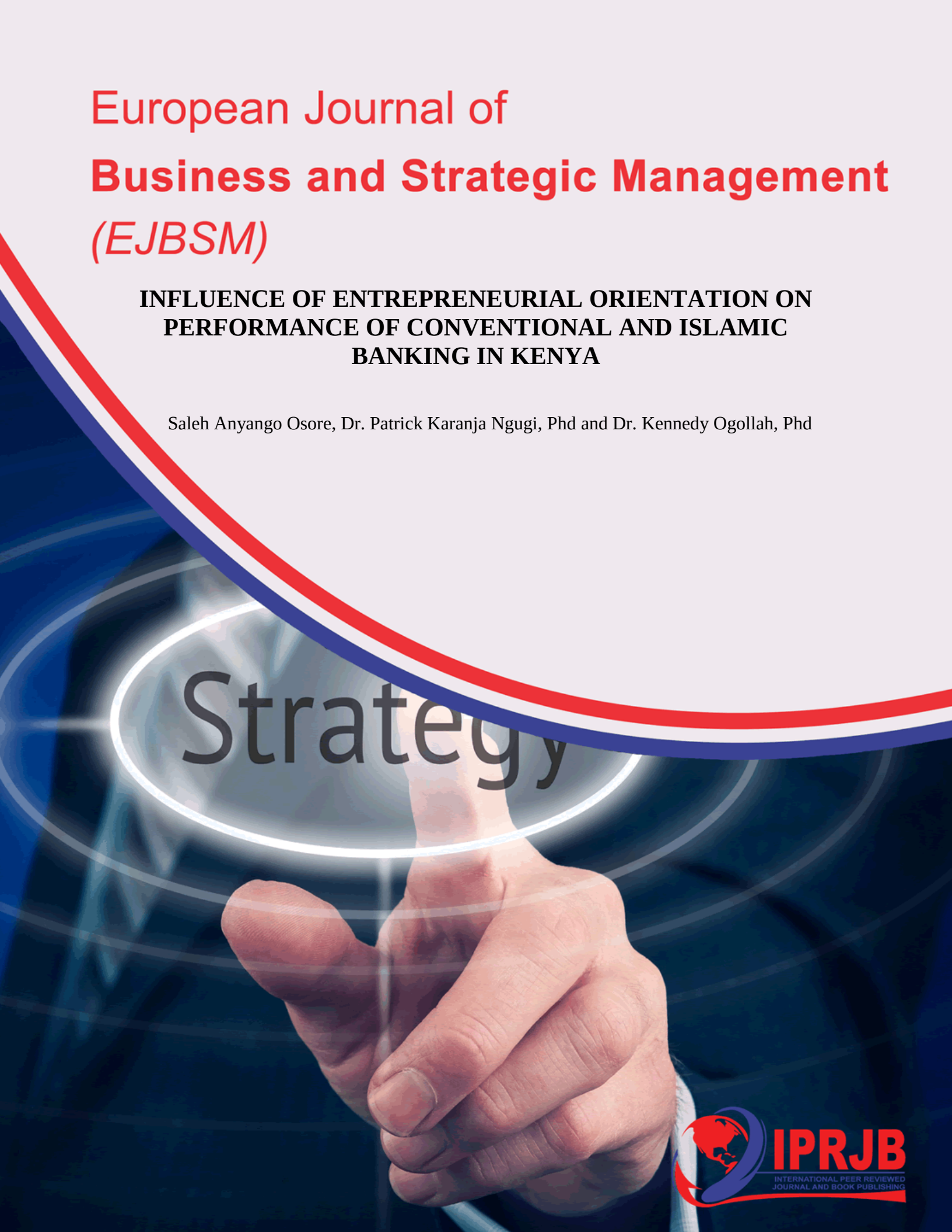

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INFLUENCE OF ENTREPRENEURIAL ORIENTATION ON PERFORMANCE OF CONVENTIONAL AND ISLAMIC BANKING IN KENYA

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Abstract

Purpose: The research was done to establish the influence of entrepreneurial orientation on performance of Conventional and Islamic banking in Kenya.

Methods: The study adopted a mixed methods research design based on descriptive, non-experimental and causal approaches. This study considered a census that targeted a population of all the forty three (43) commercial banks that were operational in Kenya as at 31st December 2016. The commercial banks also consist of Islamic banks which offer Shari'ah compliant products and services. This study used a questionnaire as the main instrument for primary data collection. Data preparation started start by coding and cleaning, the primary data obtained from the questionnaires were checked for omissions, legibility and consistency before being coded for analysis. Processed data was analysed by using both descriptive and inferential statistics. Stata version 15 was used for statistical analysis and presentation tables of the results processed in Microsoft excel. Descriptive analysis was done for the observed indicators and presented as frequency, percentages, mean and standard deviation to reveal the distribution trends. The data collected was in the form of observed indicators of larger constructs, thus multivariate dimension reduction techniques (factor analysis) was to be used to form composite latent constructs. The latent constructs generated after dimension reduction was used for statistical modelling.

Results: The findings indicated that the mixed effect model fitted with EO as a predictor showed that EO had a significant coefficient estimate at the respondent level (level-1) but there was no significant random effect with EO as a random covariate. A bivariate regression model with considering no random intercepts and no random covariates was fitted to measure the influence of EO on performance only at level 1. The coefficient of EO on performance at level one was found to be 0.824 which implied that increasing the levels of EO by a unit would increase the banks Performance by 0.824 regardless of the banking system.

Unique Contribution to Theory, Practice and Policy: The researcher recommended that an increase of the Entrepreneurial Orientation in the banking sector in Kenya is fundamental in the performance of the sector, risk taking and proactiveness elements will go a long way in the growth of the banking industry

Key Words: *Entrepreneurial Orientation, Performance, Conventional, Islamic banking*

1.0 INTRODUCTION

Having been introduced by Joseph Schumpeter, entrepreneurship is regarded as an engine for the economic development (Tajeddini & Mueller, 2012) and a driver for the business performance (Rauch et al., 2009). Firms may therefore benefit a great deal from adopting an Entrepreneurial Orientation of which they innovate frequently while taking risks in their product market strategies (Miller & Friesen, 1984).

Efforts to anticipate demand and aggressively position new products and services often result in strong performance (Ireland, Hitt & Sirmon, 2003). Conceptual arguments suggest that Entrepreneurial Orientation leads to higher performance. However, the magnitude of the relationship seems to vary across studies. While some studies have found that businesses that adopt a strong entrepreneurial orientation, perform much better than firms that do not adopt an entrepreneurial orientation. Marhani and Cahyono (2013) carried out a study on the Influence of Entrepreneurial Orientation on Firm Performance, the purpose of the study was to test and analyze the influence of entrepreneurial orientation to firm performance. The method used in this research was an explanatory research method, whereby a questionnaire as a data collection tool was distributed to 163 SME in West Java, Indonesia. A descriptive and Structural Equation Modelling (SEM) analysis was done. The findings indicated that entrepreneurial orientation had a significant influence to firm performance in West Java, Indonesia.

Hult, Snow and Kandemir (2003) carried out a study on the role of entrepreneurship in Building Cultural Competitiveness in Different Organizational Types, the study found a strong and significant relationship between entrepreneurial orientation and firm competitive advantage. A study by Mahmood and Hanafi (2013) found out that entrepreneurial orientation has a positive effect on business performance of women-based SMEs in Malaysia. Lee, Lee and Pennings (2001) carried out a study on the internal capabilities, external networks and performance: A study of technology bases ventures, the study found a strong and significant relationship between entrepreneurial orientation and firm performance.

Mwangi and Ngugi (2014) carried out a study on the Influence of Entrepreneurial Orientation on Growth of Micro and Small Enterprises in Kerugoya, Kenya. The study surveyed the influence of Entrepreneurial Orientation on growth of Micro and Small Enterprises in Kerugoya, Kenya. The study found out that the dimensions of Entrepreneurial Orientation; innovativeness, risk taking, proactiveness, and entrepreneurial managerial competence have a significant positive influence on growth of Micro and Small Enterprises. Wambugu, Gichira and Wanjau (2016) carried out a study on the Influence of Entrepreneurial Orientation on Firm Performance of Kenya's Agro Processing Small and Medium Enterprises. The study used Structural Equation Modelling Partial Least Squares to investigate the influence of Entrepreneurial Orientation on Firm Performance of Kenya's Agro Processing SMEs. The study results revealed that Entrepreneurial Orientation has a positive and statistically significant influence on firm performance of Kenya's agro processing Small and Medium Enterprises. The study concluded that Entrepreneurial Orientation as a uni dimensional construct is an important predictor of firm performance, in terms of growth and profitability.

Otieno, Bwisa and Kihoro (2012) found out that entrepreneurial orientation has a significant influence on firm performance of Kenya's manufacturing firms operating under East African Community region, in terms of sales, profits and employment. There are other studies that

reported lower correlations between Entrepreneurial Orientation and performance. Dimitratos, Lioukas and Carter (2004) carried out a study on the relationship between entrepreneurship and international performance: The importance of domestic environment. The study found out a lower correlation between entrepreneurial orientation and performance.

Lumpkin and Dess (2001) carried out a study on Linking two dimensions of entrepreneurial orientation to firm performance: The moderating role of environment and industry life cycle, the study established a weak relationship between entrepreneurial orientation and performance. Zahra (1991) carried out a study on the Predictors and financial outcomes of corporate entrepreneurship: An exploratory study, the study established a weak relationship between entrepreneurship orientation and performance.

There are other studies that reported a negative relationship between entrepreneurial orientation and performance of organizations. Anderson (2010) in his seminal work employed a sample of one hundred and seventy-two Small and Medium Enterprises from the manufacturing sector in Sweden. The study asserted that previous studies were short of considering other factors of entrepreneurial orientation to performance relationship like perceptual performance data, common method biases, as well as survival bias. The findings from this study indicated a negative relationship between entrepreneurial orientation to performance in terms of growth and profitability.

Tang and Tang (2012) carried out a study among one hundred and fifty five SMEs in northern China confirmed the entrepreneurial orientation to perform inverted U shaped relationship. Ambad and Abdul Wahab (2013) examined the entrepreneurial orientation of large firms in Malaysia, which employed partial least squares for the data analysis. They reported a mixed finding as innovativeness and risk taking positively affect performance, while, proactiveness was found to negatively affect firm performance. The inconclusiveness in the previous studies results about the relationship between Entrepreneurial Orientation and performance, motivated the researcher to examine this relationship once more. Therefore, the following hypothesis was proposed to test this relationship: *H1: Entrepreneurial Orientation has no significant influence on performance of Conventional and Islamic banking in Kenya*.

The Resource Based View Theory

The study utilized the resource based view theory in order to understand the link between strategic orientation constructs and firm performance of conventional and Islamic banking in Kenya. Corporate management and academic researchers have long recognized the importance of entrepreneurial orientation in achieving of competitive advantage in the banking sector. Resource Based View theory emerged as a complement of dual porter's theory of competitive advantage (Barney & Arikan, 2001).

Wernefelt (1984) came up with a theory of competitive advantage based on the resources a firm develops or acquires to implement a successful enterprise. Wernefelt (1984) primary contribution to the RBV literature was recognizing that firm specific resources as well as competition among firms based on their resources can be essential in order for organizations to gain advantages in entrepreneurial orientation (Barney & Arikan, 2001). A different perspective is presented by Rumelt (1991) who focused on economic rents and created a theory of rent generation and appropriating characteristics of firms' resources to specific strategies to enhance competitive

advantage of a firm. The RBV illustrates that resources and capabilities can vary significantly across firms and that these differences can be stable (Barney & Hesterly, 1996).

If resources and capabilities of a firm are mixed and deployed in a proper way they do create a competitive advantage for the firm, this is related to costs of operations, quality of services offered and business agility. The resource based view of the firm predicts that certain types of resources owned and controlled by firms have the potential and promise to generate competitive advantage and eventually superior firm performance and growth. A resource based view theory of a firm explains its ability to deliver to sustainable competitive advantage when resources are managed such that their actions cannot be imitated by competitors which creates competitive advantage barriers (Hooley & Greenley, 2005).

A financial institution can come up with a strategic plan that no any other bank can imitate; this can be possible as a result of the availability of resources that are at the disposal of an organization. This is so because a resource based view assumes that firms within an industry may be heterogeneous with respect to the bundle of resources that they control. Secondly, it assumes that resources heterogeneity may persist over time because the resources used to implement firms' strategies are not perfectly mobile across firms and are difficult to accumulate and imitate (Barney,1991; Peteraf & Bergen ,2003).*The Resource Based View informed the choice of entrepreneurial orientation as the first study variable.*

1.1 Problem Statement

The year ending 2015 saw a remarkable growth that has characterized the Islamic banking services industry as a result of the global financial crisis. However, customer satisfaction and employee retention remains an uphill task (Ariff, 2014; IFSIR, 2016). In Bahrain, 70% of the customers are not satisfied with their experiences with the banks' employees. While 70% are not satisfied with the products, services and compliance behaviour in commercial Banking. In the United Arab Emirates, 51% of the customers are not satisfied with the products and services in the Islamic Banks. In Qatar, majority of the negative sentiments on disappointment of the customers are from the branch experiences with employees. In Indonesia 53% of the customers are not satisfied with the branch experience and customer service (WIBCR, 2015).

The staff of Kuwait Finance House performed poorly in satisfying their customers, hence dismal performance as a result of how their staff handle their transactions over the phone (Naser, Salem & Nuseibeh, 2013). Product tailoring in Islamic banking still lags behind in the customers' expectation which impacts negatively on the customer satisfaction and this chasm gets even wider in the model of Islamic banking windows in conventional banking set ups, this has caused poor performance of Islamic banking products and services (Lone & Awais, 2017). In GCC 64% of the customers are not comfortable dealing with bank staff, they would be comfortable switching to a digital platform, this would significantly increase their banking relationship if this experience was made convenient, simple and accessible. Three out of four of GCC banking customers would be ready to switch banks for a better digital experience than customer employee relationship (WIBCR, 2016).

In Malaysia, the employees of Islamic banks have very limited knowledge of the sector prior to their engagement which affects their satisfaction hence poor performance, whereas their conventional counterparts have long years of learning and experience which leads to good performance (Harun, Rashid & Hamed, 2015). Islamic banking has performed dismally due to

dissatisfaction amongst the employees and customers who are not interested in having Islamic banking products and services because they believe that only "interest" name has been changed to reflect that it is Islamic based yet the interest, which is prohibited in Islam is still being practiced (Buchari, Rafiki & Al Qassab, 2014). The Islamic banking industry's performance has registered marginal improvements and sustained its growth. However, the performance of Islamic banking business has declined steadily over a period of time in the developing markets (Ariff, 2014).

In Africa, only 30% of the customers are satisfied with the commercial banks, this has been attributed as a contributing factor to poor performance of this financial sector (KPMG, 2013). In South Africa, 67% of the customers are satisfied on loans and salary advances, 20 % of these customers are very satisfied with the availability of credit products such as loans, overdrafts, salary advances and mortgages. In Tanzania, loan and salary satisfaction level is at 79% while Uganda's satisfaction level is at 52% for availability of loans. In Kenya, the satisfaction level for availability of loans is at 49% which is below the average requirement of 60% level of customer satisfaction (KPMG, 2016). High prices of products and services contribute to 55% of dissatisfaction of customers, while 53% are disgruntled as a consequence of slow customer services at branches in Kenya (Kombo, 2015).

On employee satisfaction, the Kenyan banking sector employee levels decreased by 2% from 36,923 in December 2014 to 36,212 in December 2015 (CBK, 2015). In 2016, the staff number decreased by 6.95% from 36,212 in December 2015 to 33,695 in December 2016, these could be attributed to many factors among them being technology and innovation adoption, employee satisfaction among others (CBK, 2016). Two institutions were in violation of section 19(1) of the Banking Act which requires that institutions should have a minimum liquidity ratio of 20% (CBK, 2015). The increase in the number of banks in violation was mainly in respect to noncompliance with liquidity ratio after Chase Bank Limited was placed into receivership due to deposit movement as a result of excessive customer withdrawals who were dissatisfied with the reputation of the banks. This mostly affected small and medium banks (CBK, 2016).

The performance of Islamic banking models in Kenya recorded a drop in ROA which stood at 4.5% in 2013 to 3.78% in 2014, While ROE also dropped from 32.7% in 2013 to 26.2% in 2014 (CBK, 2013; CBK, 2014). The survival and success of Islamic banking sector's performance depends critically on the effective implementation of strategic orientation aspects of management, this is one of the most significant areas that needs to be carefully studied by the policy makers of Islamic banking business (Shabbir & Zaman, 2016; Haron & Azmi, 2008).

2.0 METHODOLOGY

This study adopted a mixed methods research design based on descriptive, non-experimental and causal approaches. This study considered a census that targeted a population of all the forty three (43) commercial banks that were operational in Kenya as at 31st December 2016. The commercial banks also consist of Islamic banks which offer Shari'ah compliant products and services. This study used a questionnaire as the main instrument for primary data collection. The questionnaires were distributed and administered through the help of Research Assistants who distributed them and gave instructions on how they were to be filled. Data preparation started start by coding and cleaning, the primary data obtained from the questionnaires were checked for omissions, legibility and consistency before being coded for analysis. Processed data was

analysed by using both descriptive and inferential statistics. Stata version 15 was used for statistical analysis and presentation tables of the results processed in Microsoft excel. Descriptive analysis was done for the observed indicators and presented as frequency, percentages, mean and standard deviation to reveal the distribution trends. The data collected was in the form of observed indicators of larger constructs, thus multivariate dimension reduction techniques (factor analysis) was used to form composite latent constructs. The latent constructs generated after dimension reduction was used for statistical modelling.

3.0 RESULTS

3.1 The Influence of Entrepreneurial Orientation on Performance of Conventional and Islamic Banking in Kenya.

The findings of the study (Table 1), shows the descriptive analysis outcomes of the indicators of entrepreneurial orientation. The study sought to determine the influence that entrepreneurial orientation (EO) has on performance of Conventional and Islamic banking in Kenya. Various sub dimensions of EO were used based on the tendency of a company to be autonomous, more innovative, dare to take any risk, pursue any opportunity and being aggressive in a competition. For each dimension a set of variables measured on a Likert scale with 5 ordinal categories were used as indicators of Entrepreneurial Orientation.

The first question was whether the bank's size affects credit portfolio. Majority of the respondents (35%) were in agreement that the bank's size affects credit portfolios while only (6%) of the respondents were found to strongly disagree. The mean scores for the different banking system were found to be 3.9, 4 and 4.01 for Islamic, window and conventional banking systems with standard deviations of 1.18, 1.26 and 1.03 respectively.

Also considered was whether the team shares information about market changes among different departments within the bank. Here, majority of the respondents (38%) were in strong agreement that that the team shares information about market changes among different departments within the bank, only (6%) of the respondents were found to strongly disagree. The mean scores for the different banking system were found to be 3.24, 4.19 and 3.57 for Islamic, window and conventional banking systems with standard deviations of 1.34, 1.22 and 1.02 respectively.

Majority (49%) of the respondents believed that the bank has a strong team that is tasked with obtaining and addressing customer concerns. with only (6%) of the respondents found to strongly disagree. The mean scores for the different banking system were found to be 3.67, 3.56 and 3.79 for Islamic, window and conventional banking systems with standard deviations of 1.06, 1.59 and 1.22 respectively.

Another indicator on the autonomy dimension of EO was on whether the customer requirements are incorporated in packaging, branding and overall customization of the products to meet customer preference. On this indicator, majority of the respondents (38%) agreed that that the customer requirements are incorporated into packaging, branding and overall customization of the products to meet customer preference. Only (6%) of the respondents were found to disagree. The customer requirements are incorporated in packaging, branding and overall customization of the products to meet customer preference. Majority (38%) of the respondents believed that the top managers visit important customers frequently with only (0%) of the respondents were found to be neutral. The mean scores for the different banking system were found to be 3.67, 3.81 and

4.24 for Islamic banking, window model of banking and conventional banking systems with standard deviations of 0.97, 1.22 and 0.78 respectively.

Table 1: Autonomy of the bank

	Frequency					1		2		3	
	1	2	3	4	5	Mean	Std. dev.	Mean	Std. dev.	Mean	Std. dev.
Autonomy1	6%	9%	19%	35%	31%	3.714	1.271	3.938	1.289	3.750	1.097
Autonomy2	6%	8%	12%	36%	38%	3.667	1.065	3.563	1.413	4.042	1.156
Autonomy3	6%	6%	9%	30%	49%	3.810	1.327	3.875	1.310	4.236	1.055
Autonomy4	7%	6%	13%	38%	37%	3.810	1.123	3.563	1.263	4.014	1.169
Autonomy5	26%	38%	0%	0%	37%	2.429	1.326	2.438	1.825	3.056	1.743

Source: Field data (2018)

The second dimension of EO was Risk taking presented in Table 4.1. The first indicator on this dimension of EO was on whether the bank takes risk by creating value through pricing. For this, majority of the respondents (39%) were neutral to the question that the bank takes risk by creating value through pricing while only (5%) of the respondents were found to strongly disagree. The mean scores for the different banking system were found to be 3.71, 3.81 and 4 for Islamic, window and conventional banking systems with standard deviations of 0.85, 1.28 and 1.05 respectively. The respondents were also asked whether they agreed that the bank has improved innovation process by taking risks. Under this indicator, majority of the respondents (42%) were in agreement that the bank has improved innovation process by taking risks, only (4%) of the respondents were found to strongly disagree. The mean scores for the different banking system were found to be 3.95, 4.06 and 4.33 for Islamic, window and conventional banking systems with standard deviations of 1.07, 1.48 and 0.92 respectively.

The dimension also considered an indicator that the bank implements latest products/services where, majority of the respondents (42%) were in agreement. Only (3%) of the respondents were found to strongly disagree that the bank implements latest products/services. The mean scores for the different banking system were found to be 3.76, 3.63 and 4.1 for Islamic, window and conventional banking systems with standard deviations 1.09, 1.45 and 1.01 respectively. Another indicator on this dimension of EO was on whether the bank encourages employees to take risks. Majority of the respondents (34%) were in agreement that the bank encourages employees to take risks with only (6%) of the respondents found to strongly disagree. The respondents were also asked whether they agreed that the bank has a tendency of supporting projects where the expected returns are certain. Here, majority of the respondents (39%) were in agreement that the bank has a tendency of supporting projects where the expected returns are certain, only (6%) of the respondents were found to strongly disagree. The mean scores for the different banking system were found to be 3.43, 3.75 and 4.03 for Islamic, window and conventional banking systems with standard deviations of 0.98, 1.48 and 1.05 respectively.

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Table 2: Risk taking by the bank

	Frequency					1		2		3	
	1	2	3	4	5	Mean	Std. dev.	Mean	Std. dev.	Mean	Std. dev.
Risk taking1	5%	9%	39%	27%	21%	3.143	0.964	3.563	1.094	3.597	1.083
Risk taking2	4%	12%	19%	42%	23%	3.286	1.189	3.750	1.125	3.792	1.006
Risk taking3	3%	13%	9%	42%	33%	3.381	1.244	4.063	1.237	4.014	0.971
Risk taking4	6%	20%	33%	34%	6%	2.857	1.108	3.188	1.167	3.208	0.963
Risk taking5	6%	9%	16%	39%	30%	3.571	1.121	3.438	1.365	3.944	1.073

Source: Field data (2018)

EO was also measured using indicators under the dimension on pro activeness (Table 4.2). The first indicator observed under this dimension was on whether the personnel are proficient in executing their duties. Majority of the respondents (41%) were in strong agreement that the personnel are proficient in executing their duties, only (5%) of the respondents were found to strongly disagree. The mean scores for the different banking system were found to be 3.57, 3.81 and 4.01 for Islamic banking, window banking and conventional banking systems with standard deviations of 0.98, 1.17 and 0.94 respectively.

The dimension also considered an indicator that the bank enters new markets by opening branches. Majority of the respondents (32%) were in agreement that their banks enter new markets by opening branches, only (6%) were found to strongly disagree. Majority (35%) of the respondents believed that the bank identifies better (new) potential markets with only (6%) of the respondents found to strongly disagree. The mean scores for the different banking systems were found to be 3.48, 3.75 and 3.99 for Islamic banking, window banking and conventional banking systems with standard deviations of 1.03, 1.13 and 1.01 respectively.

Another indicator on this dimension of EO was on whether the bank had effectively implemented fintech. Majority of the respondents (30%) were in agreement that their banks had effectively implemented fintech. Only (6%) were found to strongly disagree. The mean scores for the different banking system were found to be 3.81, 3.69 and 3.97 for Islamic, window and conventional banking systems with standard deviations 0.93, 1.2 and 1.02 respectively. Under this dimension of the construct, the study also sought the perception of the respondents on their agreement that the bank is very proactive in the expansion of new technologies. Majority of the respondents (41%) were in strong agreement while (6%) were found to strongly disagree that the bank is very proactive in the expansion to new technologies.

Table 3: Pro activeness of the banks

	Frequency					1		2		3	
	1	2	3	4	5	Mean	Std. dev.	Mean	Std. dev.	Mean	Std. dev.
Pro activeness1	5%	8%	7%	39%	41%	3.476	1.289	3.875	1.310	4.236	0.957
Pro activeness2	6%	17%	22%	32%	24%	2.952	1.024	3.875	1.147	3.611	1.193
Pro activeness3	6%	9%	24%	35%	27%	3.333	1.238	3.313	1.302	3.861	1.025
Pro activeness4	6%	16%	26%	30%	22%	3.190	1.327	3.250	1.571	3.583	1.031
Pro activeness5	6%	11%	16%	27%	41%	3.286	1.309	4.188	1.424	3.972	1.113

Source: Field data (2018)

Competitive aggressiveness was also considered as another dimension of EO as presented in Table 3. Here the first indicator was on whether the bank performs the service at promised time since it has interest in solving problems. Majority of the respondents (41%) were in agreement that the bank performs the service at promised time since it has interest in solving problems. Only (4%) of the respondents were found to strongly disagree. The mean scores for the different banking system were found to be 3.71, 3.38 and 3.89 for Islamic, window and conventional banking systems with standard deviations of 1.19, 1.54 and 0.96 respectively.

The study also sought the perception of the respondents on their agreement that the bank is aggressive in anti-competitors marketing campaigns where majority of the respondents (33%) were neutral and only (9%) of the respondents strongly disagreed to the question on whether the bank is aggressive in anti-competitors marketing campaigns. The respondents were also asked whether they agreed that the bank is aggressive in growing new markets. Majority of the respondents (31%) were in agreement that the bank is aggressive in growing new markets, while (5%) of the respondents strongly disagreed that the bank is aggressive in growing new markets.

On whether the bank ensures that the innovations given to customers are of high quality, majority of the respondents (42%) were in strong agreement while (4%) of the respondents strongly disagreed that the bank ensures that the innovations given to customers are of high quality. The respondents were also asked whether the banks are aggressive in increasing market share. For which, 34% of the respondents were in strong agreement that the bank is aggressive in increasing market share, whereas (5%) of the respondents were found to strongly disagree.

Table 4: Competitive aggressiveness

	Frequency					1		2		3	
	1	2	3	4	5	Mean	Std. dev.	Mean	Std. dev.	Mean	Std. dev.
Aggressiveness1	4%	6%	14%	41%	35%	3.524	1.209	3.750	1.238	4.153	0.899
Aggressiveness2	9%	16 %	33%	28%	14%	3.143	1.276	3.563	1.209	3.167	1.101
Aggressiveness3	5%	7%	27%	31%	30%	3.619	1.322	3.938	1.237	3.750	1.017
Aggressiveness4	4%	8%	14%	32%	42%	3.476	1.250	3.875	1.360	4.194	0.959
Aggressiveness5	5%	9%	22%	30%	34%	3.381	1.284	3.375	1.147	4.014	1.055

Source: Field data (2018)

3.2 Inferential Analysis of the Influence of Entrepreneurial Orientation on Performance of Conventional and Islamic Banking in Kenya

The study findings (Table 5) indicates the results of the model including EO as a predictor of bank performance. In this model, EO was included in both the fixed and random component of the model to test whether the variable is a level 1 predicted as well as a banking system level (level-2) predictor. Factor analysis results yielded the latent variable entrepreneurial orientation (EO) from the factor scores generated from the observed indicators measured. The latent variable EO was then used as a predictor in the first model to assess the first objective of the study. According to the analysis, EO has a significant coefficient estimate (β =0.846, Z= 11.11, p-value = 0.000) as a level 1 variable in the fixed effect components. The random effect component that

considered the level 2 categories of banking system was found to be insignificant at 0.05 level of significance. The intra-class correlation (ICC) due to the categories of the banking system is 3.40E-19% which is very low. The variance attributed to the grouping level is 0.000 implying almost the entire variation is due to the level one trait. The p-value of the likelihood ratio chi-square statistic for the random effect test is 0.3787 which is greater than 0.05 implying an insignificant random effect component of the model. Since both the null model and the model with EO showed no significant random effects, the model was thus considered to have no random intercepts and no random covariance due to EO implying that EO is a level 1 variable with no covariance at the grouping level of the banking system.

This means that EO has an influence on performance across the banks though there are no significant random effects of EO on performance due to differences across the different banking systems. This implies that entrepreneurial orientation affects performance of banks similarly in all banking models that is conventional, windows and fully fledged Islamic banking in Kenya. Hence EO effect does not impact performance differently at different banking models. Factor analysis results yielded the latent variable entrepreneurial orientation (EO) from the factor scores generated from the observed indicators measured. The latent variable EO was then used as a predictor in the first model to assess the first objective of the study.

Table 6 Mixed effect model on Entrepreneurial orientation and performance

				Number of obs	=	**109**
Group variable: banking_System (g4)				Number of groups	=	3
		Obs per group:		min	=	16
				avg	=	36.3
				max	=	72
				Wald chi2(1)	=	123.48
Log restricted-likelihood = -98.644				Prob > chi2	=	0.000
Performance (fac1_1_y)	**Coef.**	**Std. Err.**	**z**	**P>z**	**[95% Conf.**	**Interval]**
Entrepreneurial orientation (fac1_1_x1)	0.846	0.076	11.110	0.000	0.697	0.995
_cons	0.004	0.056	0.070	0.946	-0.106	0.113
Random-effects Parameters	**Estimate**	**Std. Err.**		**[95% Conf. Interval]**		
banking_System (g4):						
var(fac1_1_x1)	0.007	0.016		0.000	0.728	
var(_cons)	0.000	0.000		0.000	.	
var(Residual)	0.336	0.046		0.257	0.441	

LR test vs. linear regression: chi2(2) = 0.35 Prob > chi2 = 0.8398

Level	**ICC**	**Std. Err.**	**[95% Conf.**	**Interval]**
banking_System (g4)	3.40E-21	0	3.40E-21	3.40E-21

Source: Field data (2018)

The model was also tested for the assumptions as shown in the figure exploratory analyses of the model residuals in figure 1 are of the variable. The rootogram, shows that the level-1 residuals are seemingly less deviation from normality and homogeneity. The hanging roots form no discernible patterns. The q-q plot of the residuals also shows no evident deviation from normality while scatter plot of the level-1 residuals against the predicted values of performance show no distinct increasing or decreasing function patterns implying no evidence of heteroscedasticity of the residuals.

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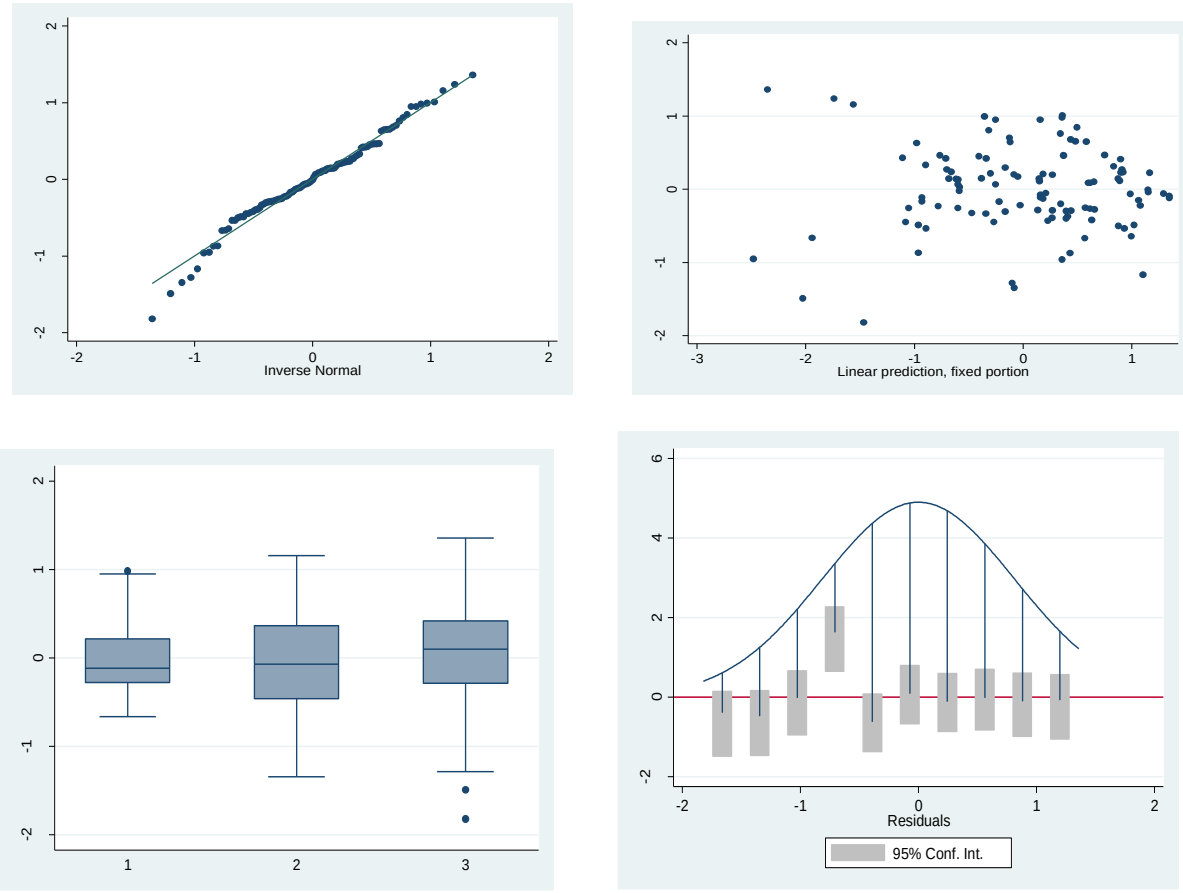

Figure 1: Exploratory residual analysis Mixed effect model on EO and performance

Source: Field data (2018)

The results in Table 7 are the Jacque-Bera test results of the normality of the residuals. The p-value of both the skewness and kurtosis measures are greater than 0.05. The p-value of the joint normality test is 0.134 which is greater as well than 0.05 implying no significant deviation from normality thus implying that the residuals are normally distributed. This implies that the assumptions were not violated.

Table 7: Normality test on residuals of Mixed effect model EO and performance

Variable	Obs	Pr(Skewness)	Pr(Kurtosis)	adj chi2(2)	Prob>chi2
resid1	109	0.193	0.136	4.020	0.134

Source: Field data (2018)

Due to the insignificance of the constant term at both levels of the model, a model supressing the constant term was fitted as shown in Table 8. The model also dropped the random intercepts and EO as a random covariate in the level-2 random effect component of the model. The model was found to have a significant fixed effect shown by the Wald chi-square statistic 208.3 with its p-value of 0.000 which is less than 0.05. EO also has a significant coefficient estimate (β =0.824,

Z= 14.130, p-value = 0.000). The resulting model only has a significant fixed effect whose estimates is equal to a simple linear regression passing through the origin given by the equation below;

$Y_{ij} = 0.824X_{ij}^{1} + e$ …….…… equation 4. 1

Table 8: Fixed effect model on Entrepreneurial orientation and performance

Mixed-effects REML regression				**Number of obs**	=	**109**
				Wald chi2(4)	=	**199.69**
Log restricted-likelihood = -96.851				**Prob > chi2**	=	**0.0000**
Performance (fac1_1_y)	**Coef.**	**Std. Err.**	**z**	**P>z**	**[95% Conf. Interval]**	
Entrepreneurial orientation (fac1_1_x1)	0.824	0.058	14.130	0.000	0.710	0.939
Random-effects Parameters	**Estimate**	**Std. Err.**		**[95% Conf. Interval]**		
sd(Residual)	0.345	0.047		0.265	0.451	

Source: Field data (2018)

Ho_1: Entrepreneurial Orientation has no significant influence on performance of Conventional and Islamic banking in Kenya.

The p-value of the coefficient of Entrepreneurial Orientation was found to be 0.000 which is less than 0.05. The null hypothesis was rejected, hence a conclusion drawn that Entrepreneurial Orientation has a significant influence on performance of both Conventional and Islamic banking in Kenya. The significant coefficient estimate was 0. 824 implying that increasing the levels of size of Entrepreneurial Orientation as measured in the study by one unit would result in an increase in the performance levels of the any of the banks by 0.824. From the findings, entrepreneurial orientation has a positive significant influence on performance of both conventional and Islamic banking models in Kenya. This is in line with studies conducted by Marhani and Cahyono (2013), Aminu and Shariff (2015) Hult, Snow and Kandemir (2003), Mahmood and Hanafi (2013), Lee, Lee and Pennings (2001), Mwangi and Ngugi (2014), Wambugu, Gichira and Wanjau (2016), Otieno, Bwisa and Kihoro (2012).

Autonomy, Risk taking, Proactiveness and Aggressiveness as elements of entrepreneurial orientation affect performance of both conventional and Islamic banking in Kenya alike. An increase in one unit of entrepreneurial orientation elements will equally increase their performance. However, there are other studies that established lower correlations between entrepreneurial orientation and firm performance, Dimitratos, Lioukas and Carter (2004), Lumpkin and Dess (2001), Zahra (1991), while some reported negative association, Anderson (2010) While Ambad and Abdul Wahab (2013) reported a mixed finding as entrepreneurial

aspects of orientation, innovativeness and risk taking positively affect performance, while, proactiveness was found to negatively affect firm performance.

4.0 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

4.1 Summary

Entrepreneurial Orientation was considered as in the study as an independent dimension of strategic orientation. The dimensions of entrepreneurial orientation were measured in various indicators on ordinal scales of 5 from strong disagreement to strong agreement. The latent construct EO yielded from factor analysis dimension reduction of the indicators was used as an independent variable in a regression model fitted against firm performance.

The mixed effect model fitted with EO as a predictor showed that EO had a significant coefficient estimate at the respondent level (level-1) but there was no significant random effect with EO as a random covariate. A bivariate regression model with considering no random intercepts and no random covariates was fitted to measure the influence of EO on performance only at level 1. The coefficient of EO on performance at level one was found to be 0.824 which implied that increasing the levels of EO by a unit would increase the banks Performance by 0.824 regardless of the banking system.

4.2 Conclusions

The findings of the model fitted between entrepreneurial orientation and performance was used to assess and draw the conclusion on this objective. The study established that Entrepreneurial Orientation has a fixed influence on performance of both Conventional and Islamic banking in Kenya. EO was not found to be a level-2 predictor in the model hence it was noted to averagely influence both Conventional and Islamic banking in Kenya similarly. There was no significant difference in the level of influence of entrepreneurial orientation across the different banking systems.

4.3 Recommendations

Based on the study findings, the researcher recommends that an increase of the Entrepreneurial Orientation in the banking sector in Kenya is fundamental in the performance of the sector, risk taking and proactiveness elements will go a long way in the growth of the banking industry. The study also recommends that since the performance is the most extremely explicit and valid focus among the other performance dimensions, financial innovativeness information should be available particularly for regulatory and advisory bodies for guidance of the commercial banks to employ the strategies leading to their innovativeness for increased profitability and financial effectiveness.

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