ENTREPRENEURIAL ORIENTATION AND SMALL AND MEDIUM ENTERPRISES GROWTH: EMPIRICAL EVIDENCE FROM SMES IN THE MANUFUCTURING SECTOR OF NAIROBI COUNTY, KENYA

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Abstract

Purpose: This study sought to investigate then effect of entrepreneurial orientation on the growth of small and medium manufacturing enterprises in Nairobi County, Kenya.

Methodology: The research adopted a cross section design and descriptive research approach. Stratified random sampling was used to collect primary data from 265 SMEs in the manufacturing sector from a population of 853 SMEs registered with Kenya Association of Manufacturers (KAM) in Nairobi County, Kenya. Data was collected by use of a self-administered questionnaire and analysed by statistical computations of means, percentages, and correlation and regression analysis using STATA statistical software.

Findings: Findings of this research indicate that with the exception of risk taking and proactiveness; innovativeness, autonomy and competitiveness aggressiveness were all statistically significant in explaining the growth of Small and medium manufacturing enterprises in Nairobi County, Kenya. Evidence from this study supports the evidence that innovativeness, autonomy and competitiveness aggressiveness are key entrepreneurial dimensions that are imperative for enhancing SME growth.

Unique contribution to theory, practice and policy: From the empirical findings we recommend that the management of SMEs need to put more emphasis on innovativeness, autonomy and competitiveness aggressiveness in order to enhance the growth of their firms

Key words: *Small and Medium Enterprises, Entrepreneurial Orientation, Growth, Manufacturing Sector*

1.0 INTRODUCTION

Globally SMEs play an important role in the economies of both developing and the developed countries. In developing countries SMEs are drivers for economic growth and poverty reduction as well as stepping stone to industrialization (Muriithi, 2017; Turyakira, 2018). SMEs are engines of economic growth due to their contribution in creation of new jobs, expansion of tax base and driving innovations (Katua, 2014). These businesses represent 99% of all enterprises in developing countries, including Kenya (Muriithi, 2017). World Bank (2017) documents that formal SMEs contribution to total employment and national income (GDP) in developing economies stands at over 60% and 40% respectively. For example, in Kenya, SMEs contribute 33.8% of the GDP and accounts for over 80% of new jobs created (Government of Kenya, 2016; 2018). The sector additionally offers employment opportunities for over 50% of the total workforce of the country.

The significance of SMEs to Kenya also extends to adoption of innovations. World Trade Organization (2016) documents that the productivity and performance of SMEs can be greatly be enhanced through incorporation of innovations given their advantage of faster communications compared to larger firms. According to Beck and Demirguc-Kunt (2005) SMEs facilitates competition and entrepreneurship to thrive hence leading to economic growth, enhanced innovations and aggregate productivity.

In Kenya, the manufacturing sector consists of micro, small, medium and large firms (Kenya Economic Report, 2017). Approximately 95 per cent of firms in the manufacturing sector are MSEs which are also by extension the largest employment contributor in the sector (Kenya Economic Report, 2017). According to the Ministry of Industrialization and Enterprise Development (2015), Kenya's manufacturing base over the years has averaged at 11% of the country's GDP. Kenya Economic Report (2017) attributes the continued weak performance of the sector to importation of cheap products, high cost of doing business, and low technology adoption, among others. Additionally, the sector's poor growth significantly compromises creation of jobs, incomes and poverty reduction in Kenya and achievement of Kenya Vision 2030.The Vision is aimed at transforming Kenya into a newly industrialized and middle-income country by 2030.

Entrepreneurial orientation refers to strategy making process and styles of firms engaged in entrepreneurial activities (Lumpkin & Dess, 2001).Entrepreneurial orientation is a multidimensional measure of firm-level entrepreneurship, comprising of innovativeness, proactiveness, risk-taking, competitive aggressiveness and autonomy (Lumpkin & Dess, 1996). Entrepreneurial orientation has generally been widely recognized as an imperative

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factor in enhancing the growth and profitability of a firm. Literature on the relationship between Entrepreneurial orientation (EO) and growth suggests that both variables are positively related (Moreno & Casillas, 2008).

The relationship between entrepreneurial orientation of the firm and its performance has been researched at both conceptual (Covin & Slevin, 1991; Lumpkin & Dess, 1996) and empirical (Wiklund, 1999; Wiklund & Shepherd, 2005; Zahra & Covin, 1995) levels. However, the above notwithstanding, Moreno and Casillas (2008) note that many questions are yet to be answered. Research findings from most entrepreneurial orientation studies have demonstrated that the adoption of entrepreneurial orientation associated entrepreneurial behaviours will benefit firms in the creation or sustenance of high performance (Rauch, Wiklund, Lumpkin, & Frese, 2009). Conversely, some studies (Covin, Slevin, & Schultz, 1994; Lee, Lee, & Pennings, 2001; Slater & Narver, 2000) have not established a positive correlation between entrepreneurial orientation and business performance. These mixed findings therefore calls for more research.

Statement of the Problem

Small and medium enterprises (SMEs) play a pivotal role in employment creation, industrial transformation and poverty reduction. However, inadequate infrastructural facilities, high mortality rates, inadequate knowledge and skills, inadequate facilitative operating environment, restricted market access, onerous regulatory requirements and rapid changes in technology are some of the key challenges hampering their growth (Deloitte Kenya Economic Outlook, 2016; Mwarari & Ngugi, 2013).

High failure rates associated with SMEs in Kenya is one of the key challenges. Past statistics indicate that, three out of five businesses fail within the first few months of operation (Kenya National Bureau of Statistics, 2007; Government of Kenya, 2016). The high SME failure rates compromise to a great extent the government's efforts in the attainment of Kenya's Vision 2030. Additionally, the startup cost and time involved in the establishment of new SMEs are wasted as a result of high rates of business failures. Review of literature showed that relationship between entrepreneurial orientation and growth has not been adequately researched (Soininen, 2013), particularly in developing countries. Further, it is not clear whether inadequate or absence of entrepreneurial orientation levels contributes to the low survival rates of SMEs in Kenya. This study was undertaken to bridge this knowledge gap by investigating the association of entrepreneurial orientation and the growth of small and medium manufacturing enterprises in Nairobi County, Kenya.

Objectives of the study

General Objective

To identify and analyze the relationship between entrepreneurial orientation and the growth of small and medium enterprises in the manufacturing sector in Kenya.

Specific Objectives

i. To determine the effect of innovativeness in the growth of small and medium manufacturing enterprises in Kenya.

ii. To determine the effect of risk taking in the growth of small and medium manufacturing enterprises in Kenya.

iii. To establish the effect of proactiveness in the growth of growth of small and medium manufacturing enterprises in Kenya.

iv. To investigate the effect of autonomy in the growth of growth of small and medium manufacturing enterprises in Kenya.

v. To determine the effect of competitive aggressiveness in the growth of growth of small and medium manufacturing enterprises in Kenya.

2.0 LITERATURE REVIEW

2.1 Theoretical Literature Review

Hoselitz socio cultural theory of entrepreneurship, resource based view and contingency theories are some of the key theories that underpin relationship of variables in this study. The socio cultural theory of entrepreneurship was first postulated by Hoselitz (1964) whose main assumption was that individuals are endowed with social and cultural power that entrepreneurs can not only be developed but also emanate from given socio-economic backgrounds. Socio-cultural theories are important in explaining the impact of socio-cultural environment on entrepreneurial outcomes (Akhter & Sumi, 2014). Hofstede (2001) work has shown the importance of cultural dimensions in enhancing entrepreneurship development. Additionally, Thornton, Ribeiro-Soriano, and Urbano (2011).point out that both social and cultural aspects are important in influencing the decisions of individuals to create entrepreneurial activities.

The resource-based view (RBV) is one of the current dominant theories in management whereby it endeavors to explain the internal sources of the sustained competitive advantage of a firm (Kraaijenbrink, Spender, & Groen, 2010). RBV lays emphasis on a firm's internal idiosyncratic resources (Barney, 1991; Penrose 1959) Additionally, RBV views the firm as a bundle of resources whose attributes to a great extent affect the competitive advantage of the firm as well as its performance (Barney, 1991; Wernerfelt,

1984). According to Barney, Wright and Ketchen (2001, p. 641) the resources and capabilities of a firm "can be viewed as bundles of tangible and intangible assets, including a firm's management skills, its organizational processes and routines, and the information and knowledge it controls"

The RBV postulates that the growth of a firm and its sustainability is determined by the resources it possesses and controls and how such resources are used by the firm (Barney, 1991; Wernerfelt, 1984).The key argument of RBV is that acquisition and control of valuable, rare, inimitable, and non-substitutable resources and capabilities is mandatory for a firm to attain sustainable competitive advantage stage (Barney, 1991).

Contingency theory of the firm originated from the concept of coalignment and is additionally termed as configuration, fit, or consistency approaches to organisational research (Venkatraman & Prescott, 1990). Miller (1988) points out that the contingency theory acknowledges the importance of congruence or fit among key variables (environment or structure) in augmenting the optimal behaviour of a firm.

Researchers interested in exploring the relationships between two or more organizational and environment variables have been advised by entrepreneurship scholars (Covin & Slevin, 1991; Lumpkin & Dess, 1996) to use contingency theory. Rauch et al. (2009) adds that the contingency theory posits that the introduction of a third variable affects the relationship between the two variables since the possibility of presenting a clear and precise picture of the actual relationship is intensified. Further, given mixed findings on the benefits of entrepreneurial orientation research, there is need for research to focus on contingent factors (Wales, Gupta, & Terry Mousa, 2011).

2.2 Empirical Literature Review

A number of researchers have associated growth with entrepreneurship (Davidsson, Delmar, & Wiklund, 2002). Literature suggests that entrepreneurial orientation and growth are positively related (Casillas & Moreno, 2010). Growth has been viewed by some researchers as a factor that determines the entrepreneurial behaviour of a firm (Brown, Davidsson, &Wiklund, 2001; Covin & Miles, 1999). Additionally, Moreno and Casillas (2008) argue that growth can be considered a logical consequence of innovation, proactiveness and risk taking propensity of a firm and by extension entrepreneurial orientation.

Previous studies (Covin, et al., 2006; Eggers, Kraus, Hughes, Laraway, & Snycerski, 2013; Harms, Reschke, Kraus, & Fink, 2010; Keh, Nguyen, & Ng, 2007) have demonstrated that better performance is attained by firms possessing high entrepreneurial orientation levels compared with those having low entrepreneurial orientation levels.

Findings from Harms et al. (2010) established that entrepreneurial orientation had a positive impact on innovation and growth. Similarly, a positive relationship between entrepreneurial orientation and revenue growth as well as employment growth was revealed in Eggers et al.'s (2013) work. In their study to investigate the relationship between entrepreneurial orientation and growth, Covin, et al.'s (2006) research used sales growth rate as a growth proxy. Evidence from their study established a positive relationship between entrepreneurial orientation and sales growth rate.

A study to explore the influence of innovativeness on the growth of SMEs in Nairobi by Ngugi, McOrege, and Muiru, (2013) established that innovativeness influences the growth of SMEs in Kenya. This was mainly through proclivity of owner/manager to engage in and support new ideas, novelty, experimentation and creative processes resulting to new products, services or technological processes. Provision of incentives for innovative employees and entrepreneurs support on employees' innovation was also found to significantly influence the growth of SMEs in Ngugi et al.'s (2013) research. Otieno, Bwisa and Kihoro's (2012) work in Kenya found a positive and significant relationship between innovativeness and performance taking into consideration sales, profitability and employees growth parameters. Further, Mwaura, Gathenya and Kihoro's (2015) research on the influence of entrepreneurial orientation on the performance of women owned enterprises in Kenya established a significant positive relationship between innovativeness and business performance. Similarly Uddin, Bose, and Yousuf's (2014) research in Bangladesh to explore relationship between the entrepreneurial orientation (EO) and business performance established that innovativeness, proactiveness, risk-taking tendency, and autonomy were all related to business performance. Additionally the aforementioned study indicated that risk taking and innovativeness had positive and significant relationship with business performance while proactiveness and autonomy exhibited negative relationships.

The above notwithstanding, there are some empirical research (Moreno & Casillas, 2008; Zahra, & Garvis, 2000) that have failed to exhibit a direct and significant relationship between entrepreneurial orientation and growth. The aforementioned can be illustrated by Zahra and Garvis's (2000) study on 98 U.S companies which showed that companies that had aggressively pursued entrepreneurial orientation posted a higher return on assets (ROA) and a comparably lower growth. Findings from Moreno and Casillas's (2008) study demonstrate an indirect relationship between entrepreneurial orientation and growth through the mediating or moderating roles of other variables for instance strategy, environment or firm resources.

3.0 RESEARCH METHODOLOGY

This study sought to investigate then effect of entrepreneurial orientation on the growth of small and medium manufacturing enterprises in Nairobi County, Kenya. The study adopted a cross section design and descriptive research approach. The target population comprised of 853 SMEs registered with Kenya Association of Manufacturers (KAM). This study focused on SMEs in the manufacturing sector in Nairobi County. A sample of 265 SMEs was drawn from the population using Cochran's (1977) formula. This research used stratified random sampling technique where: food and beverage, leather and footwear, motor vehicle accessories, textile and apparel, plastic and rubber, chemical and allied as well as metal and allied subsectors were considered.

Structured questionnaires were used to collect primary data from 201 respondents administered through drop and pick methods. The questionnaire was divided into three sections namely: Background of business, entrepreneurial orientation dimensions, and firm performance. All study's respondent were requested to rate each variable item on a seven point semantic differential scale. Further, the respondents were also required to give sales volume, assets base and number of employees (all in quantitative measures) for the previous five or so years that they had been in business. The unit of analysis for this research was the SMEs (firm) in the manufacturing sector.

In order to enhance reliability, the questionnaires were tested for internal consistency using the Cronbach's coefficient alpha. The Cronbach alpha coefficients for the items in the questionnaires were above .07 indicating that information gathered with the research instrument was reliable and stable. Data analysis was done using descriptive statistical techniques like frequencies, mean and percentages. Inferential statistics was used in testing hypotheses of this study. Frequency distribution tables and percentages are used in presenting the findings of this research. SAS software was used for data analyses.

4.0 RESULTS AND DISCUSSION

This study was undertaken on SMEs operating in the manufacturing sector in Nairobi County. The sample comprised of 265 SMEs. Out of this, 201 questionnaires were properly filled and collected. This represents a 75.8% response rate. Babbie (2013) considers a response rate of above 50% to be adequate for analysis and reporting in descriptive research, while 60% is good and 70% very good. Cooper and Schindler (2013) also asserts that a response rate of above 30% adequate data that can be used for generalization purposes. Therefore, 75.8% response rate achieved in this research was adequate and acceptable for analysis.

This research sought to establish the background information of SMEs (n=201) in terms of type of business, activities of enterprise, years enterprise has been operating, number of employees and annual sales of the enterprise. Majority of the SMEs were private limited companies (79.5%). The other types of businesses were partnerships (9.95%) and individually owned enterprises (9.95%). Others in the above mentioned category comprising 1% of the SMEs were public corporations. Data collected revealed that 24.38% of the SMEs were involved with manufacturing of chemicals while 17.41% were engaged with plastic and rubber activities. Motor vehicle accessories activities were undertaken by 15.42% of the SMEs. Other SMEs dealing with, food and beverage activities, metal and allied, textile and apparel in addition to leather and footwear constituted 14.43%, 13.93%, 6.47%, and 5.47% respectively. The remaining enterprises (2.49%) were engaged with engineering as well as building and construction activities.

The findings also established that 46% of the SMEs had been in operation for more than 20 years, 13% between 16-20 years, 12.5% between 11-15 years, and 30% between 6-10 years. 13.5% of the SMEs had been in operation between 2-5 years. The research further sought to determine the number of employees and annual sales of the firm. Data collected revealed that 30.35% of the SMEs had between 10-49 employees while 24.38% had 50-59 employees. Half of the enterprises (49.25%) had annual sales exceeding 10 million while 25.37% of the SMEs had annual sales ranging from 5-10 million. The results also showed that 11.94% and 5.47% of the SMEs had annual sales of 2–3 Million and 1 Million and below respectively.

The main objective of this study was to identify and analyze the relationship between entrepreneurial orientation and the growth of small and medium enterprises in Kenya. To establish the degree of influence for dependent variable on the independent variables, regression analysis was undertaken using the following linear multiple regression equation.

$$Y = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \beta_3 X_{3i} + \beta_4 X_{4i} + \beta_5 X_{5i} + \varepsilon$$

Where Y = SME growth, the dependent variable of the study X_1, X_2, X_3, X_4, X_5 represent innovativeness, risk taking, proactiveness, autonomy and competitive aggressiveness which are the independent variables of the study. β_0 = is the Y intercept/constant, $\beta_1 - \beta_5$ = coefficient of regressions which measures how strong each independent variable influence the dependent variable SME growth, while ε = the error term. In this research, 5% level of significance is applied. That is, the coefficient is statistically significant if p-value is .05 or less.

Table 1: The relationship between entrepreneurial dimensions and average growth of sales

Model fit Coefficients			
Root MSE	0.31135	R-Square	0.1675
Dependent Mean	3.9797	Adj R-Sq	0.1161
Coeff Var	7.82335		

The results of the regression models are in Table 1. The model fit shows that $R^2 = .167$. This means that the multiple regression linear model with innovativeness, risk taking, proactiveness, competitive aggressiveness and autonomy as the independent variables accounts for 16.75% of the variance in the dependent variable. The rest of the variance in the dependent variable is accounted for by variables outside the model.

Table 2: Analysis of Variance Table showing the relationship between entrepreneurial dimensions and average growth of sales

Source	Df	Sum of Squares	Mean Square	F Value	Pr > F
Model	5	1.57953	0.31591	3.26	0.0099
Error	81	7.85183	0.09694		
Corrected Total	86	9.43136			

The ANOVA test tabulated in Table 2 was used to test the significance of the model as well as the existence of variations within the model. The results indicate that $F_{(5, 81)} = 3.26$, $P = < 0.05$. This implies that the study's model is a significant predictor of the dependent variable growth of SMEs and the dependent variables fitted well in the model. In other words, the model can be relied upon to predict the growth of SMEs.

Analysis of the descriptive statistics of this research indicate that majority of the respondents were in agreement that their firm's innovativeness affected their performance. The statistics revealed a mean of 6.22 and standard deviation of 1.234 for innovativeness. Inferential statistics of the study show that the correlation between innovativeness and SME growth was positive albeit weak (.229) and significant (.033).

The coefficients of regression analysis shown in Table 3 indicate that innovativeness is statistically significant in explaining the growth of small and medium manufacturing enterprises in Nairobi County, Kenya as shown by ($\beta = .03$, p-value = .004). This means that the relationship between innovativeness and growth of small and medium manufacturing enterprises was positive. The implication of the above is that an increase in innovativeness by one unit leads to an increase in growth of SMEs by 0.03 units. These

findings are in agreement with Ngugi et al.'s (2013) research which established that innovativeness influences the growth of SMEs in Kenya. Moreover, Uddin et al.'s (2014) Bangladeshi research which showed that innovativeness has a statistically significant and positive effect with business performance supports the findings of this research.

An examination of the coefficients of regression show that risk taking is statistically insignificant in explaining the growth of small and medium manufacturing enterprises in Nairobi County, Kenya as shown by (β = -0.057,   p-value = .516). This means that risk taking is negatively related to the growth of small and medium manufacturing enterprises. Additionally, results in Table 3 indicate that an increase in risk taking by one unit leads to a decrease in growth of SMEs by 0.006 units. The findings of this research showing negative and statistically insignificant relationship between SME growth and risk taking are supported by Uddin et al.'s (2014) work that obtained similar results. Conversely, the findings of this study differ with the Mwangi, and Ngugi's (2014) research on micro and small enterprises in Kerugoya, Kenya which established a positive and significant relationship between enterprise growth and risk taking.

The results depicted in Table 3 demonstrate that proactiveness is statistically insignificant in explaining the growth of small and medium manufacturing enterprises in Nairobi County, Kenya as shown by (β = -0.077,   p-value = .363). This implies that the relationship between proactiveness and growth of small and medium manufacturing enterprises was negative. Additionally, results in Table 3 indicate that increase in proactiveness by one unit leads to a decrease in growth of SMEs by 0.08 units. These findings are in agreement with the results of Uddin et al. (2014) work.

Growth of small and medium manufacturing enterprises in Nairobi County, Kenya can be significantly and statistically explained by autonomy as depicted by (β = 0.025, p-value = .003) in Table 3.This simply means that autonomy is positively associated with growth of small and medium manufacturing enterprises in Nairobi County, Kenya. Further, results in Table 3 show that increase in autonomy by one unit leads to an increase in growth of SMEs by 0.025 units. These results are similar with the findings of the Mwangi, and Ngugi (2014) as well as Otieno et al. (2012) which indicated that autonomy had a positive and statistically significant effect on performance of SMEs.

Coefficients of regression shown in Table 3 portray that competitiveness aggressiveness is statistically significant in explaining the growth of small and medium manufacturing enterprises in Nairobi County, Kenya as shown by (β = .0018,   p-value = .0009). This means that the relationship between competitiveness aggressiveness and growth of and medium manufacturing enterprises was positive. The implication of the above is that an increase in competitiveness aggressiveness by one unit leads to an increase in growth of

SMEs by 0.018 units. The results of the present study corroborates the findings of many earlier studies like that of Otieno et al. (2012) as well as Mwaura et al. (2015) that established similar results.

Table 3: Parameter Estimates showing the relationship between entrepreneurial dimensions and average sales volume growth of SMEs

			Parameter Estimates			
Variable	Label	Df	Parameter Estimate	Standard Error	t Value	Pr > |t|
Intercept	Intercept	1	3.33102	0.28261	11.79	<.0001
X_1	Innovativeness	1	0.0312	0.00808	0.39	0.0406
X_2	Risk Taking	1	-0.0571	0.00874	-0.65	0.5158
X_3	Proactiveness	1	-0.0765	0.00836	-0.91	0.363
X_4	Autonomy	1	0.02546	0.00835	3.05	0.0031
X_5	Competitive Aggressiveness	1	0.01804	0.01077	1.67	0.0098

The combined variables contribution to the dependent variable was done using the linear multiple regression model. Table 3 displays the relationship between sales volume growth and innovativeness, risk taking, proactiveness, autonomy, and competitive aggressiveness. Based on the results, the coefficients of innovativeness, autonomy and competitiveness aggressiveness were positive and statistically significant. Risk taking and proactiveness coefficients were negative and not statistically significant. This means that with the exception of risk taking and proactiveness; innovativeness, autonomy and competitiveness aggressiveness are strong determinants of SME growth. The results according to the model indicates that autonomy was the most significant variable followed by competitive aggressiveness and lastly innovativeness. The negative relationship portrayed indicate that any increase in risk taking and proactiveness levels results in reduced growth of small and medium manufacturing enterprises.

Taking the t analysis as shown from Table 3 into consideration, a regression model for predicting SME growth was generated using β values and the constant as follows:

SME growth = 3.331 + 0.03Innovativeness + 0.025*Autonomy + 0.0018*Competitiveness aggressiveness.

5.0 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The findings of this study indicate that innovativeness is statistically significant in

explaining the growth of small and medium manufacturing enterprises in Nairobi County, Kenya. This research also establishes a positive relationship between innovativeness and SME growth. This study concludes that an increase in innovativeness by one unit leads to an increase in growth of SMEs. Going further, this research established the importance of autonomy in enhancing SME growth. This study found out a positive and statistically significant relationship between autonomy and growth of small and medium manufacturing enterprises in Nairobi County, Kenya. This research concludes that an increase in autonomy by one unit leads to an increase in growth of SMEs. Similarly, the results of this research demonstrate that competitiveness aggressiveness is statistically significant in explaining the growth of small and medium manufacturing enterprises in Nairobi County, Kenya. The relationship between competitive aggressiveness and growth of small and medium manufacturing enterprises was also positive. Hence this research concludes that an increase in competitiveness aggressiveness by one unit leads to an increase in growth of SMEs.

5.2 Conclusions

With regards to both risk taking and proactiveness, the findings of this research signify a negative and statistically not significant relationships with growth of small and medium manufacturing enterprises in Nairobi County, Kenya. Accordingly, given the negative relationship portrayed in this research, it is concluded that any increase in risk taking and proactiveness levels results in reduced growth of small and medium manufacturing enterprises.

5.3 Recommendation

From the findings we recommend that the management of SMEs need to put more emphasis on innovativeness, autonomy and competitiveness aggressiveness in order to enhance the growth of their firms.

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