

A DESCRIPTIVE ANALYSIS OF THE INFLUENCE OF ENTREPRENEURIAL ORIENTATION DIMENSIONS ON THE PERFORMANCE OF SMES IN KENYA

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ABSTRACT: *Small and medium-sized enterprises (SMEs) play an important role in the world economy. They contribute substantially to income output and employment. Indeed, they dominate the world business. In spite of this, studies have failed to identify and assess the corporate entrepreneurship dimensions that lead to good performance, especially in Kenya. As such, based on a study of SMEs in Kenya, this paper examines the relationships that obtain between Entrepreneurial Orientation (EO) and firm performance among SMEs. Specifically, the study sought to find out the effect of entrepreneurial innovativeness, risk-taking and proactiveness on firm performance. The study was guided by the resource based view (RBV), contingency theory, theories of entrepreneurship and the marketing theory. It adopted explanatory research design using a census sample with the target population being all the top 536 medium sized firms between 2006 and 2013. Data was collected using a questionnaire and analyzed using descriptive statistics, Pearson's bivariate correlation, multiple regression and moderated regression analysis. Results revealed that entrepreneurial innovativeness, risk taking and proactiveness have a direct positive relationship with performance of SMEs. From the findings, the study recommended the need to intensify initiatives that encourage a better understanding of EO dimensions in boosting firms' competitive positions and superior performance; firms should be more entrepreneurial in order to attain superior performance and survive the intensively competitive market environment. They should continuously innovate, especially through new product development, being first to enter the market with new products and in the use of creative new solutions that lead them to be recognized by competitors as leaders in innovation. SME owners/managers also need to enhance their risk-taking behaviour by encouraging staff to take risks with new ideas, make effective changes to their products and be willing to accept at least moderate levels of risk, engage in risky investments and have the courage to seize new opportunities, even if this may involve great financial risks.*

KEYWORDS: Influence, Entrepreneurial Orientation Dimensions, Performance, SMEs, Kenya

INTRODUCTION

A crucial debate has recently emerged within the entrepreneurial business management domain concerning the use of the terms entrepreneurship and SME as if they were "alternative or synonymous", with a number of studies acknowledging the interchangeable or alternative use of these terms by authors (Lucky & Olusegun, 2012). Citing Lee-Ross and Lashley (2009), the authors affirm: although, SMEs and entrepreneurship tend to achieve the same goal, both concepts differ considerably; therefore, distinguishing between SMEs and entrepreneurship is crucial as both concepts are not the same. It is important to understand the difference as being that SMEs are simply business organizations, while entrepreneurship is a

process of the entrepreneurial act to establishing SMEs or business ventures (Lucky & Olusegun, 2012).

In this paper, SMEs are treated within the perspective of firms and businesses with the acronym “SMEs” standing for “small and medium scale enterprises”, i.e. they are firms or businesses which are small and medium in size; they have come into being as a result of entrepreneurial activities of individuals (Lucky & Olusegun, 2012). As a result of their global presence, diversity and country-specific characteristics, many and varied definitions and meanings of SMEs exist. Different countries may define SMEs differently, hence it is difficult to find “a single universally accepted definition of SMEs” (Arowomole, 2000). SMEs are defined variously in terms of the number of employees, management structure, capital investment limit and turnover. These definitions reflect country-specific criteria on what SMEs stand for, according to existing differences between countries, sizes and sectors (Arowomole, 2000). Lee-Ross and Lashley (2009) aver that the most important reason for the variation in the definition of SME, more so “from industry to industry, country to country, size to size and number of employees to number of employees, is to reflect industry, country, size and employment differences accurately”.

Small and Medium Enterprises (SMEs) are a key source of productivity, growth and job creation in most world economies, including Kenya; they have been recognized in research “as a major engine of economic growth” (Henderson & Weiler, 2010). According to Mwarari (2013), “SMEs are the main source of economic growth in developed and developing countries alike”. In the US, the SME sector generates 67% of the formal employment jobs and 61% of manufacturing output while in Korea, SMEs constitute 99.9% of the country's enterprises and employ 88.1% of the total labour force. Among the developed countries, Japan is reported to “have the highest proportion of SMEs accounting for more than 99% of total enterprises” (EIU, 2010). The European Commission (2013) reports that in 2012, SMEs in the 27-member EU accounted for 99.8% of all enterprises and employed 67% of all formal employment workers. Moreover, statistics from India indicate that in 2008, there were 13 million SMEs, equivalent to 80% of all the country's businesses (Ghatak, 2010). In the African context, South African SMEs account for 91% of the formal business entities (Abor & Quartey, 2010).

It is estimated that Kenya has approximately 1.7 million micro and small enterprises which together account for 20% of GDP and employ nearly 60% of wage employment (Government of Kenya, 2010). The critical importance of SMEs in Kenya is amplified in the country's blueprint (the Kenya Vision 2030) for transforming Kenya into a newly-industrialized, middle-income country by the year 2030. In Kenya, an SME is defined as any enterprise that employs 1-50 employees (*Sessional Paper* No. 2 of 2005). The World Bank on the other hand, defines an SME as one that is either a formally registered business, has an annual turnover of between Kenya Shillings 8 to 100 million; has an asset base of at least Kenya Shillings 4 million or employs 5 to 150 employees. The MSME Bill 2011 has used 2 criteria - the number of employees and the business' annual turnover, to define SMEs in general (PriceWaterhouseCoopers, 2005). For enterprises in the manufacturing sector, the definition takes into account the investment in plant and machinery as well as the registered capital.

The Concept SME Performance

Performance is a concept that has been used widely to gauge or measure how well organizations, mechanisms or processes achieve intended purposes. In the context of business

management, Wu and Zhao (2009) define an organization's performance as how well the organization is managed and the value it delivers for customers and other stakeholders. Performance is concerned with achieving stockholder and investor interests and expectations. An organization must achieve its expected objective with greater efficiency and effectiveness to match its competitors if it is to attain superior relative performance (Wu & Zhao, 2009).

The concept of firm performance is multidimensional and, therefore, many different firm performance metrics exist. They all fall into either of three categories: financial, behavioural or marketing. Financial metrics include revenue, profitability, stock price and production efficiency, to name just a few. Marketing measures include sales (currency or units), market share, store traffic, number of inquiries; number of new products developed or reduced complaint rates. Behavioural metrics include industry, firm age and firm size, among others.

Business analysts, corporate and individual investors frequently use financial metrics such as profitability, liquidity ratios and leveraging ratios to judge the performance of firms. The ratios are derived from firms' income statements, balance sheets and other financial data made available to the public in annual reports and other publications. Profitability ratios indicate the profit-making ability of the business while the liquidity ratios indicate the ability of the business to meet its short-term financial commitments (Akhter, 2006). The leveraging ratios indicate the level of external debt the company has incurred to run its operations. The activity ratios are an indication of the turnover rates and payment schedules. Other financial performance metrics include stock price, and earnings per share (EPS). These metrics are presented in newspapers, magazines, and industry/trade associations' publications and the internet – on company websites. They provide reference points for evaluating a firm's financial health, relative to other firms in the same industry, as well as for judging the firm's standing in relation to other industries.

Financial performance is also considered a multidimensional construct. For instance, Carton and Hofer (2010) describe financial performance as a combination of profitability, growth, efficiency, liquidity, size and leverage, which are measured with relevant measures. The potential measures to assess the above-mentioned dimensions of performance are, for instance: return on assets, sales growth, sales per employee, current ratio, number of employees, and debt to equity. The concept of financial performance itself is a complex construct, and the EO literature offers no solid consensus on the appropriate measures of small firm performance (Wiklund, 1999). Hence, the prior literature shows that the range of measures that have been used to assess firm performance has been rather diverse. For instance, Kraus *et al.* (2011) note that performance is regularly measured in one or a combination of perceived financial, perceived non-financial and archival financial performance.

Financial metrics alone are not adequate for judging firm performance. Marketing metrics provide the link between firm competencies, financial health and market outcomes. Measurable market outcomes include consumers, products, price, place and promotion. They can be used to measure a firm's performance in relation to competitors and achievements in relation to set goals. Marketing metrics are compared over time to gain a sense of where the firm has been, where it is now, and where it is headed. They provide an understanding of the firm's position in the marketplace.

A study by Chong (2008) has revealed that owner-managers of SMEs use the hybrid approach to measure the performance of their enterprises. This comprises a combination of

both financial and non-financial measures to evaluate performance against predetermined goals and time. The use of this hybrid combination is the result of the recognition of the limitations of relying solely on either one measure. In entrepreneurial SMEs, the most important measure of performance is growth, as viewed in terms of sales. The multidimensional nature of performance and the advantages of integrating different dimensions of entrepreneurial performance is also recognized (Blesa & Ripolles, 2003). These dimensions of performance have been identified as including profitability, the sales margin and new product success and have been established in various published researches as measures related to entrepreneurial and market-oriented behaviours.

The Concept of Entrepreneurial Orientation

The concept of EO has become a central focus in the entrepreneurship literature and the subject of more than three decades of research (Covin & Wales, 2012). Researchers consider EO to be a higher order construct with underlying dimensions (George & Marino, 2011). Miller (1983) conceptualizes the three focal dimensions of EO as innovativeness, risk-taking and proactiveness, adding that “an entrepreneurial firm is one that engages in product-market innovation, undertakes somewhat risky ventures, and is first to come up with ‘proactive’ innovations, beating competitors to the punch”. These three dimensions have since been used consistently in the literature (Kemelgor, 2002; Dimitratos *et al.*, 2011). Lumpkin and Dess (1996) describe innovativeness as reflecting a firm’s tendency to engage in and support new ideas, novelty, experimentation and creative processes that may result in new products, to pursue new opportunities, services or technological processes, representing a basic willingness to depart from existing technologies or practices and venture beyond the current state or norm. They argue that innovativeness is a key component of EO because it reflects an important means by which firms pursue new opportunities.

Miller (1983) describes proactiveness as an opportunity-seeking, forward-looking perspective characteristic of the introduction of new services and products ahead of the competition and acting in anticipation of future demand. In their more recent study, Qing *et al.* (2009), quoting Miller and Friesen (1982), define proactiveness as acting and anticipating with a forward-looking perspective to introduce new products or services and risk-taking as the degree of risky behaviour in the entrepreneurial strategic process. They further make an overall summary description of EO, citing Lumpkin and Dess (1996), as being related to the entrepreneur’s methods, practices and decision-making styles.

Entrepreneurial risk-taking refers to actions such as venturing into the unknown, heavy borrowing and/or committing large portions of corporate assets in uncertain environments (Baird & Thomas, 1985). In the same manner, Lumpkin and Dess (1996) argue that entrepreneurially oriented firms are often characterized by risk-taking behaviour, such as incurring heavy debts or making significant resource commitments, in the interests of obtaining high returns by seizing opportunities in the marketplace.

The role of entrepreneurial orientation (EO) in influencing firm behaviour is one of the primary areas of attention for the burgeoning stream of current entrepreneurship research. Miller’s (1983) ground-breaking seminal conceptualization of EO as a posture with three characteristics - innovation, and calculated risk-taking – was followed by the work of Covin and Slevin (1989, 1991), who empirically established the construct as a primary characteristic of firm-level entrepreneurial behaviour. Subsequent research has focused on the question of whether EO is uni-dimensional or multi-dimensional and whether or not the construct is

generalizable to settings outside the US where it all began (Arbaugh, Cox & Camp, 2009). This debate has broadened, with many researchers departing from Miller's uni-dimensional construct of EO, to affirm that a multi-dimensional conceptualization of EO may "provide benefits such as stronger and more significant relationships between entrepreneurial orientation and firm performance" (Lumpkin & Dess, 1996; Callaghan & Venter, 2011).

Miller (1983) in his proclamation of the three dimensions of entrepreneurial firms states "an entrepreneurial firm is one that engages in product-market innovation, undertakes somewhat risky ventures, and is first to come up with 'proactive' innovations, beating competitors to the punch." On their part, Lumpkin and Dess (1996) discuss EO as indicative of the "processes, practices, and decision-making activities that lead to new entry" whereby five main dimensions are found to underpin the study conceptually. They described these dimensions as the key entrepreneurial processes that characterize and distinguish a firm's entrepreneurial orientation (EO) and listed them as autonomy, innovativeness, risk taking and competitive aggressiveness. They clarify that these dimensions do not represent entrepreneurship, defined as new entry; they describe how new entry is undertaken. An EO, therefore, refers to the processes, practices and decision-making activities that lead to new entry. It is about the intentions and actions of key players functioning in a dynamic generative process aimed at new-venture creation. Lumpkin and Dess (1996) add that "successful new entry may be achieved when only some of these factors are operating, i.e. the extent to which each of these dimensions is useful for predicting the nature and success of a new undertaking may be contingent on external factors, such as the industry or business environment, or internal factors, such as the organization structure or the characteristics of founders or top managers".

Callaghan and Venter (2011), in a more recent study, support Lumpkin and Dess (1996), noting that EO is taken to consist of the five dimensions, namely innovativeness, competitive aggressiveness, risk-taking propensity, autonomy and proactiveness. The study that informed the writing of this paper associated these dimensions with firm performance. Lumpkin and Dess (1996) and Callaghan and Venter (2011) have undertaken a thorough analysis of each of the dimensions of EO in order to provide clarity and operationalization of the terms. According to these authors, innovativeness refers to a firm's tendency to engage in and support new ideas, novelty experimentation and creative processes that may result in new products, services or technological processes; autonomy reflects the concept of free and independent action and decision-making in bringing forth an idea and/or a vision and carrying it through to completion; proactiveness is concerned with initiative and first-mover advantages, taking leadership and initiative by anticipating and pursuing new opportunities; having the will and foresight to seize new opportunities, even if it is not the first to do so; competitive aggressiveness is the firm's propensity to directly and intensely challenge its competitors to achieve entry or improve position; being responsive in confronting and taking reactive action; risk-taking is a behavioural entrepreneurial dimension along which opportunity is pursued.

In addition to the three much used EO dimensions first proclaimed by Miller (1983), Lumpkin and Dess (1996) argue that dimensions such as competitive aggressiveness and autonomy should also be considered as essential components of EO. These two additional dimensions were defined by Lumpkin and Dess (2001) as follows: "competitive aggressiveness is said to reflect the intensity of a firm's effort to outperform industry rivals, characterized by a strong offensive posture and a forceful response to competitor's actions.

Autonomy is independent action by an individual or team aimed at realizing a business concept or vision and carrying it through to completion”.

However, the number of studies in the EO literature that have used all these five dimensions is very limited (e.g. George *et al.*, 2001) when compared to the number of studies using the three dimensions of Covin and Slevin (1989). According to Soininen (2013), “the dimension of autonomy is related to larger corporations and therefore, in the context of small firms, it can be reasonably omitted from the scale; the same exclusion procedure may also be relevant for competitive aggressiveness, as small firms may lack the competitive power needed to be able to behave as the dimension expects”. For these reasons, therefore, the study adopted the Miller/Covin and Slevin 3-dimensional construct of EO – innovativeness, risk-taking and proactiveness – as constituting the independent variable.

Entrepreneurial Innovativeness

According to Lumpkin and Dess (1996), innovativeness is the firm’s tendency to engage in and support new ideas, novelty experimentation and creative processes. These may result in new products, services or technological processes which may take the organization to a new paradigm of success (Swiercek & Ha, 2003). Schumpeter (1934) is one of the first to point out the importance of innovation in the entrepreneurial process and considers entrepreneurship to be essentially a creative activity and the entrepreneur as an innovator who carries out new combinations in the field of the five *Ms* of men, money, material, machine and management.

Entrepreneurial Proactiveness

Proactiveness is conceptualized as a process aimed at the search for new opportunities which may or may not be related to the present line of operation, introduction of new products and brands, ahead of competition and strategically eliminating operations which are in the mature or declined stages of the life-cycle (Venkatraman, 2003), reflecting a firm’s ability to introduce strategic changes, adoption and elimination of operations based on their current stage in the life-cycle (Swierck & Ha, 2003; Green *et al.*, 2008; Krieser & Davis, 2010).

Entrepreneurial Risk-taking

Risk-taking refers to the tendency to take bold actions such as venturing into unknown new markets and committing a large portion of resources to ventures with uncertain outcomes. It was Cantillon (1755) who was the first to make reference the term entrepreneurial risk-taking, describing the entrepreneur as a rational decision-maker “who assumes risk and provides the management of the firm”. In the 1800s, John Stuart Mill argued that risk-taking is the paramount attribute of entrepreneurship. Risk-taking implies willingness to commit huge resources to opportunities which involve probability of high failure (Zahra, 1991; Wiklund & Shepherd, 2003).

Statement of the Problem

Small and medium-sized enterprises (SMEs) play an important role in the world economy; they contribute substantially to income, output and employment and dominate the world business stage (Ayyagari *et al.*, 2011). It is estimated that more than 95% of enterprises across the world are SMEs, contributing close to 60% of private sector employment. They are viewed as a key driver of economic and social development in the African continent and

represent a large number of businesses, generating enormous wealth and employment. They are widely considered as being vital to every country's competitiveness (Kiraka *et al.*, 2013). In Kenya, SMEs have continued to contribute significantly to the country's economic development. For example, in 2011 this sector employed close to 80% of Kenya's total workforce and contributed 20% to GDP; it created 445 900 jobs – a 5.1% increase, with an estimated 9.2 million people engaged in the nation's informal sector. The sale of goods and services in the neighbouring East African Community countries was the main driver of revenue growth in 76% of all the SMEs (AfDB, OECD, UNDP & UNECA, 2012).

Entrepreneurial Orientation has received substantial conceptual and empirical attention, representing some of the few areas in research into entrepreneurship and marketing in which a cumulative body of knowledge is developing. Nonetheless, past research has concentrated only on the examination of the direct effect of EO on firm performance or on the effect of other variables on one or two dimensions of EO (e.g. Lumpkin & Dess, 2001; Abu-Hassim *et al.*, 2011; Ahlin, Drnovsek & Hisrich, 2012), hence providing an incomplete picture, especially in the case of SMEs in developing countries. Nyanjom (2007) has researched on how enterprises in Botswana can develop and enhance entrepreneurial innovation and encourage entrepreneurial activity within enterprises. The study that informed the writing of this paper, however, examined the moderating effect of marketing orientation on the relationship between EO and firm performance among SMEs in Kenya. Based on the study, this paper presents the findings and discusses the effect of EO dimensions on SMEs in Kenya.

In Kenya, many studies (Lwamba, Bwisa & Sakwa, 2014; Mokaya, 2012; Mayaka, 2006; Ongore & K'Obonyo, 2011; Miring'u & Muoria, 2011; Mang'unyi, 2011) have been conducted on factors that influence performance of enterprises; however, all of these studies fail to address SMEs. For example, Mayaka (2006) in their studies of leading Kenyan companies concentrated on the factors that lead to the companies' success in order to develop a case study. Nevertheless, the study fails to identify corporate entrepreneurship dimensions that lead to good performance of the enterprises and specifically SMEs.

MATERIALS AND METHODS

The study was quantitative in nature and employed an explanatory research design. Explanatory research design was chosen as the most suitable method for the study because of the need to gain an understanding of the broader contexts of the relationships among the research variables. Explanatory research is used for understanding phenomenon in terms of likely causes. Explanatory research implies that the research in question is intended to explain, rather than simply describe, the phenomena studied (Maxwell & Mittapalli, 2008).

This study targeted 536 medium-sized firms that made it to the Nation Media/KPMG "Top 100 Mid-sized Companies" survey in Kenya during the years 2008-2013. Each year, during this 6-year period, the Nation Media Group and the KPMG have conducted an annual survey of Kenyan SMEs to identify the country's "Top 100 mid-sized companies". The target and accessible population comprised the management staff and owner-managers of these medium sized firms. For the purpose of study, the sampling frame for the target population was the list of medium-sized firms that participated in the Nation Media Group and the KPMG survey of

Kenyan SMEs to identify the country's "Top 100 mid-sized companies" in the last six years (2008-2013) and made it to the "Top 100" each year.

This study used the census sampling technique and therefore included all the 536 firms from which the target and accessible population was drawn. The sample size for the study was 536 respondents who were owners or managers from the 536 medium-sized firms in the study population. Questionnaires provided a way of gathering structured data from respondents in a standardized way, either as part of a structured interview or through self-completion. Data received from returned questionnaires was first cleaned to remove errors and then coded. To test the hypotheses of the study, an empirical investigation leading to the analysis of the relationships between EO and firm performance was carried out. Data was analyzed using descriptive statistics, correlation and multiple regression analyses. Statistical analysis was performed using SPSS. Descriptive statistics were performed for comparisons of the means, standard deviation, skewness and kurtosis.

Correlation analysis was used to test the relationship between EO and performance. This was performed by calculating the correlation coefficients. The values of correlation coefficients vary between +1.00 and -1.00. Both the extreme scores represent perfect relationships between the variables. 0.00 indicates the absence of a relationship. Multiple regression analysis was used to test the existence and extend of the relationship between EO and firm performance.

RESULTS AND DISCUSSION

Entrepreneurial Orientation Dimensions

Innovativeness

The study sought to establish the effect of innovativeness on firm performance. This construct had five (5) items on which it was measured using a 7-point Likert scale whereby respondents were expected to indicate their perception of their firms' level of innovativeness by ticking either of 1-7 for strongly disagree, disagree, somewhat disagree, neutral, agree, strongly agree. Table 1 below presents the results of the descriptive analysis (means, standard deviations, skewness and kurtosis) of the firms. Overall, the descriptive statistics resulted in a mean of 5.21 and a standard deviation of 2.0564. The mean response for the five variables ranged from 4.52 for "we consider ourselves to be an innovative company" to 5.31 for the business being the first to market with new products. The largest variation was in competitor recognition of the firms as leaders in innovation (SD = 2.134) and the least was in the firms being always first to market with new products and services (SD = 1.858). This implies that innovativeness was highly valued by the medium-sized firms as they emphasized on creating new solutions and valued new product lines development in the market.

The study findings agree with those of Lumpkin and Dess (1996) who refer to innovativeness as the firm's tendency to engage in and support new ideas, novelty, experimentation and creative processes that may result in new products, services or technological processes. The findings further agree with those of Prajogo and Ahmed (2006) and Yang *et al.* (2012) who assert that process innovation represents changes in the way firms produce end-products or services through the diffusion or adoption of an innovation developed elsewhere or new practices developed internally. The findings further corroborate those of Clausen and Madsen

(2011) who affirm that companies that put innovation at the forefront of their strategy create novel and breakthrough new products and processes and thereby put themselves in a position where they may generate extraordinary performance.

The skewness and kurtosis coefficients were between +3 and -3, an indication that the data was normal. This implies that the data qualified for use in parametric analysis such as regression and correlation analysis.

Table 1: Descriptive Analysis Results for Entrepreneurial Innovativeness

Statement	Mean	SD	Skewness	Kurtosis
We highly value new product lines.	5.15	2.048	-.773	-.978
When it comes to problem solving, we value creative new solutions more than solutions that rely on conventional wisdom.	5.2	2.130	-.915	-.776
We consider ourselves as an innovative company.	4.52	2.112	-.269	-1.486
Our business is always the first to market with new products and services.	5.31	1.858	-.889	-.599
Competitors in this market recognize us as leaders in innovation.	4.91	2.134	-.583	-1.355
Average	5.21	2.056	-.686	-1.034

Source: Research Data (2014)

Risk-taking

The study further sought to establish the effect of entrepreneurial risk-taking on firm performance. The mean score for the responses was 5.53, with the lowest mean being that of the variable testing the willingness of firms to make at least a moderate level of risk of significant losses (Mean = 5.23) and the highest being those relating to two items: "firms' willingness to encourage staff to take risks with new ideas" and entrepreneur's willingness to take great financial risks to seize opportunities (Mean=5.76). This is an indication that many of the respondents/firms took great entrepreneurial risk; hence entrepreneurial risk-taking is a key driver of firm performance.

The study findings agree with those in Eggers *et al.* (2003) who posit that entrepreneurs invest significant resources into projects with high probabilities of failure. The findings also concur with those of Otieno *et al.* (2012) who observe that risk-taking is a necessity for enterprising manufacturing firms intent on enhancing their performance; that a high propensity to take calculated risk is important to firm management, and that it is attributable to business success, hence business success is dependent on entrepreneurs' ability to take calculated risk.

The standard deviation for all statements was below 2.5, with the overall mean standing at 1.745. This demonstrated consensus among respondents in as far as their responses was concerned, leading to a low level of variability in the responses. The skewness and kurtosis coefficients, at between +3 and -3, demonstrated that the data was normal, which also implies that the data satisfied the criteria for use in parametric analyses. These results were as presented in Table 2 below.

Table 2: Descriptive Analysis Results for Entrepreneurial Risk Taking

Statement	Mean	SD	Skewness	Kurtosis
We encourage people in our company to take risks with new ideas.	5.76	1.757	-1.385	.593
We value new strategies/plans even if we are not certain that they will always work.	5.57	1.482	-1.359	.832
To make effective changes to our offering, we are willing to accept at least a moderate level of risk of significant losses.	5.23	1.911	-1.230	-.098
We engage in risky investments (e.g. new employees, facilities, debt, stock options).	5.50	1.742	-1.552	.984
I have the courage to seize opportunities.	5.36	1.821	-1.525	1.016
I take great financial risks to seize opportunities.	5.76	1.757	-1.385	.593
Average	5.53	1.745	-1.511	1.630

Source: Research Data (2014)

Proactiveness

The study also sought to assess the effect of entrepreneurial proactiveness on firm performance. The results of descriptive statistics computed for this variable were as shown in Table 3 below. The mean score for the response in this section was 5.306 with the lowest being that of the statement “We incorporate solutions to unarticulated customer needs in our products and services” (M =5.19) and the highest being new businesses or markets to target (M =5.37). The findings imply that entrepreneurial proactiveness is one of the key drivers of the performance of Kenyan SMEs.

The least standard deviation related to search for new business opportunities (SD=1.783) and the highest related to incorporation of solutions to unarticulated customer needs in the firms’ products and services (SD=1.953), evidence of low variability in responses. The skewness and kurtosis coefficients lay between +3 and -3 and were therefore normal and qualified for parametric analyses.

These findings are consistent with those of Nieman (2004) who argues that firm proactiveness is an indication of forward-looking posture and leads to innovative and risk-taking actions, factors that are crucial in facilitating firm performance. The findings also agree with those of Blesa and Ripolles (2003) who allude to the existence of arguments in favour of a positive relationship between entrepreneurial proactiveness and firm performance, stating that the presence of these arguments relate to the first mover advantage. The first mover can exploit marketplace asymmetries to gain competitive advantage, hence enhance firm performance.

Table 3: Descriptive Analysis on Entrepreneurial Proactiveness

Statement	Mean	SD	Skewness	Kurtosis
We consistently look for new business opportunities.	5.30	1.783	-1.445	.596
Our marketing efforts try to lead customers rather than respond to them.	5.33	1.896	-1.113	-.236
We work to find new businesses or markets to target.	5.37	1.807	-1.233	.156
We incorporate solutions to unarticulated customer needs in our products and services.	5.19	1.953	-1.025	-.569
We continuously try to discover additional needs of our customers of which they are unaware	5.34	1.930	-1.041	-.391
Average	5.306	1.874	-1.124	.662

Source: Research Data (2014)

Factor Analysis for Entrepreneurial Orientation

To assess construct validity for EO, factor analysis was conducted on 16 items, five for innovativeness, six for risk-taking and five for proactiveness, using the Principal Components Method (PCM) with varimax rotation. Six items explained 77.81% of variance. Factor loadings for the EO dimensions ranged from 0.557 to 0.914 and the KMO measure of sampling adequacy was found to be 0.523, which is above the threshold of 0.5 (Field, 2005). The Bartlett's test of sphericity is significant in this study with $\chi^2 = 3642.421$ (p-value, < 0.001). Therefore, the Kaiser-Meyer-Olkin (KMO) value of 0.523 and the significance of Bartlett's test statistic confirm the appropriateness of the factor analysis for the data set. This is all captured in Table 4 below.

Table 4: Factor Analysis Results for Entrepreneurial Orientation

Component	Factor Loadings	Total Variance Explained					
		Initial Eigen values			Rotation Sums of Squared Loadings		
		Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	.914	4.084	25.524	25.524	4.084	25.524	25.524
2	.913	2.805	17.530	43.054	2.805	17.530	43.054
3	.891	1.917	11.981	55.035	1.917	11.981	55.035
4	.864	1.401	8.757	63.792	1.401	8.757	63.792
5	.861	1.222	7.637	71.429	1.222	7.637	71.429
6	.742	1.021	6.383	77.813	1.021	6.383	77.813
7	.818	.861	5.380	83.192			
8	.795	.620	3.876	87.069			

Kaiser-Meyer-Olkin (KMO) = .523; Bartlett's Test for Sphericity (χ^2) = 3642.421; Sig. 0.000
Extraction Method: Principal Component Analysis with Varimax Rotation

Source: Research Data (2014)

CONCLUSION

Entrepreneurial innovativeness is a key driver of firm performance of SMEs in Kenya. The study confirmed that innovativeness is statistically significant in explaining firm performance. It is, therefore, apparent that the propensity of a firm to be innovative has a direct relationship with the performance of the firm. SMEs that implement policies and procedures that promote innovativeness perform better than those that do not.

Entrepreneurial risk taking also influences the performance of SME firms in Kenya. It was concluded that owner/managers' characteristics (e.g. ability to create sustainable and wealth creating ventures, take risks and possess other psychological dispositions – e.g. persistence, action orientation and self-confidence) are able to survive and compete with large firms in their industries and localities. Correlation results led to the conclusion that the relationship between risk taking and firm performance is positive and significant. The findings imply that risk-taking has a significant effect on firm performance. The results of the tests indicated the presence of a strong and significant relationship between risk taking and firm performance hence, leading to the conclusion that risk taking is a key driver in explaining firm performance.

The findings also revealed that proactiveness has a significant influence on the performance of medium sized firms in Kenya. It was concluded that the entrepreneurial element of proactiveness leads to business success among SMEs. The success of the firms is achieved because of the appropriate management decisions, e.g. being first to market, ability to adapt quickly to changes, ability to seize opportunities in new markets or with new products and a proactive approach to drive the business forward.

Recommendations

Based on the study finding and discussion in this paper, it is recommended that firms should continuously innovate, especially through new product development, being first to market with new products and in the use of creative new solutions that lead them to be recognized by competitors as leaders in innovation. Moreover, SME owners/managers need to enhance their risk-taking behaviour by encouraging staff to take risks with new ideas, make effective changes to their offerings, and be willing to accept at least moderate levels of risk, engage in risky investments and have the courage to seize new opportunities, even if this may involve great financial risks. In addition, SMEs should continue to look for new business opportunities and markets to target, use marketing efforts that lead customers rather than respond to them, incorporate solutions to unarticulated customer needs and continuously strive to discover customer needs of which they are unaware.

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