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THE INFLUENCE OF ENTREPRENEURIAL INNOVATIVENESS ON FIRM PERFORMANCE AMONG SMALL AND MEDIUM-SIZED ENTERPRISES 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. They dominate the world business stage. Empirical studies have identified the effects of Market Orientation (MO) and entrepreneurial orientation (EO) on firm performance; also on the moderating effect of MO on single EO constructs, yet studies have failed to identify the influence of Entrepreneurial Innovativeness on the relationship between corporate entrepreneurship dimensions and firm performance, especially in Kenya. Therefore, based on a study conducted to determine the moderating effect of MO on this relationship among mid-sized enterprises in Kenya this paper examines the effect of entrepreneurial innovativeness on firm performance and the moderating effect of MO in the relationship between entrepreneurial innovativeness and firm performance. The study was guided by the Resource Based View (RBV), Contingency Theory, theories of entrepreneurship and the marketing concept. It adopted explanatory research design using a survey of all the top 600 med-sized firms in Kenya between 2006 and 2013. Actual participating firms were 536 with responses obtained from 394 firms. 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 has a direct positive relationship with performance of mid-sized firms. In addition, market orientation had no significant moderating effect on the relationship between entrepreneurial innovativeness and firm performance. From these results, the study recommends that firms should intensify initiatives to encourage better understanding of EO and MO in boosting firms' competitive positions and superior performance.*

KEYWORDS: Entrepreneurial Innovativeness, Firm Performance, Small, Medium-Sized Enterprises, Kenya

INTRODUCTION

A competitive and high performing SME sector is critical and strategic in attaining economic and social development of any country. Some scholars associate SME performance to firms' entrepreneurial orientation (EO). For example, Lumpkin and Dess (1996) argue that the right configuration of an entrepreneurial orientation for achievement of high firm performance is critically dependent on industry and environmental variables, and the structural managerial characteristics of existing firms. Naldi *et al*. (2007) suggest that EO is regarded as inevitable for firms that intend to prosper in competitive business environments; that there is a positive relationship between EO and firm performance. EO research links the growth and performance of SMEs to firms' degree of EO, or the willingness and capability to innovate, take risks, and be proactive when faced with market opportunities (Liu, Monolova & Edelman, 2009; Otieno, Bwisa & Kihoro, 2012).

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Lekmat and Selvarajah (2008) have examined the corporate entrepreneurship activity of senior managers in 400 auto-parts manufacturing companies randomly chosen from the Thailand Automotive Industry directory, 2006-2007. They suggest that corporate entrepreneurship has significant influence on firm performance in terms of financial aspects. Innovativeness, for instance, has the strongest effect on superior firm performance (Lekmat & Selvarajah, 2008). This is consistent with the argument that innovation is the most important component of corporate entrepreneurship as well as the dominant predictor of performance (Zahra, 1991; Antoncic & Hisrich, 2004). Self-renewal and organizational support have also been found to be positively and significantly related to firm performance (Lekmat & Selvarajah, 2008). The views of Lekmat and Selvarajah (2008) in reference to Thailand, an emerging economy, are important in understanding the issues affecting entrepreneurs in a country like Kenya which is a developing economy. This paper, therefore, examines how innovativeness as an aspect of entrepreneurial orientation influences firm performance among small and medium-sized enterprises (SMEs) in Kenya.

Innovation is a way of life for growing entrepreneurial firms. Innovation entails doing things differently and better; it happens faster and quicker in growing firms where technological innovation is introduced sooner. Quoting Schumpeter, one of the first among scholars to discuss the importance of innovativeness, Eggers, Kraus, Hughes, Laraway and Syncerski (2003) refer to innovation as a process of “creative destruction” because innovation leads to the introduction of new products/services, which “disrupt the current market and cause a shift of resources.” Lumpkin and Dess (as cited in Eggers *et al.*, 2003) 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.”

Conceptually, product innovation is concerned with generating ideas or the creation of something entirely new that is reflected in changes in the end product or service offered by a firm. According to Ahalin *et al.* (2012), product innovation is conceptually the action of idea generation, or that of developing something that is entirely new as reflected in changes identified in the final product/service the firm offers to the market; process innovation, on the other hand, involves changes in the methods used by firms to offer end products/services through diffusion or adoption of innovations developed by others or new ways internally developed by the firms. Schumpeter (as cited in Clausen & Madsen, 2011) affirms that “companies that put innovation in the forefront of their strategy create novel and breakthrough new products and processess and thereby put themselves in a position where they may generate extraordinary performance.”

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, stressing 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 scholarship (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

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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. Miller and Friesen (as cited in Qing *et al.*, 2009) define proactiveness as acting and anticipating with a foreward-looking perspective to introduce new products or services', and risk-taking as "the degree of risky behaviour in the entrepreneurial strategic process. Similalry, Lumpkin and Dess (as cited in Qing *et al.*, 2009) summarily describe EO 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). 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 views 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 *et al.*, 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).

In his proclamation of the three dimensions of entrepreneurial firms, Miller (1983) says: "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." They describe the following dimensions as the key entrepreneurial processes that characterize and distinguish a firm's entrepreneurial orientation (EO): autonomy, innovativeness, risk taking, proactiveness and competitive aggressiveness. According to Lumpkin and Dess (1996), these dimensions do not represent entrepreneurship, defined as new entry; they described how new entry is undertaken. An EO, therefore, refers to the processes, practices and decision-making activities that lead to new entry. It involves 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, that is, the extent to which each of these dimensions is useful for

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> 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) support Lumpkin and Dess (1996), noting that EO is taken to consist of five dimensions, namely innovativeness, competitive aggressiveness, risk-taking propensity autonomy and proactiveness. 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; 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; 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 the firm is not the first to do so.

In addition to the three much used EO dimensions first proclaimed by Miller (1983), Lumpkin and Dess (1996) argued that dimensions such as competitive aggressiveness and autonomy should also be considered as essential components of EO. These two additional dimensions are 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 (George *et al*., 2001) that have used all these five dimensions is very limited 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 that informed this paper adopted the Miller/Covin and Slevin 3-dimensional construct of EO – innovativeness, risk-taking and proactiveness – as constituting the independent variables. This paper presents and discusses the research findings regarding the influence of innovativeness on the performance of SMEs in Kenya.

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The Concept of Market Orientation

Market Orientation (MO) is defined by Frishmmar and Horte (2007) as the process in which the needs of customers are satisfied, and this is done through assessment of continuous needs. The dimensions of Market Orientation include customer orientation, competitor orientation and coordination between departments. MO is a strategic management task that, if well applied within its dimensions, leads to successful business performances (Kreiser *et al.,* 2002). According to Amalia *et al.* (2008), all approaches to MO show that some researchers consider MO the result of implementation of the marketing concept. The marketing concept is regarded as the foundation of modern marketing and shows that a firm obtains long-term profitability if it identifies consumers' needs and satisfies them better than competitors. The advocates of the marketing concept affirm that the purpose of the concept is to have a satisfied consumer. Sustainability extends it to the societal marketing concept, which is an enlargement of the concept and whose emphasis is on preservation or enhancement of the consumer's and the society's well-being. The societal marketing concept calls upon marketers to build social and ethical considerations into their marketing practices. "They must balance and juggle the often conflicting criteria of company profits, consumer want satisfaction, and public interest" (Bhasin, 2010).

Kohli and Jaworski define Market Orientation as the organization-wide generation of market intelligence, or information on customers' current and future needs, dissemination of that information across departments and organization-wide responsiveness to it (Kohli & Jaworski, 1990). Erdil *et al.* (n.d) state that a Market Orientation assures a customer-focused strategy for market knowledge, generation of information about needs of customers and external environmental factors, the dissemination of such information among organizational functions, and the development and implementation of strategies in response to the information. In short, MO is comprised of three (3) elements: customer orientation, competitor orientation, and inter-functional coordination (Idar & Mahmood, 2011). Market Orientation is a concept that can be implemented by any type of firm – no matter the size or the industry in which the organization operates (Amalia *et al.*, 2008).

In the world of business, Market Orientation has been tested as a strategic concept for creating competitive advantage in the turbulent environment. Although the implementation of the concept in firms is still debated, several studies in developed countries have shown a positive relationship between Market Orientation and firm performance. Market Orientation studies have been conducted in various contexts. However, Market Orientation in the developing countries within a non-western environment in the SME sector is still under-explored.

Narver and Slater (1990) hypothesize that MO is a uni-dimensional construct, consisting of three behavioural components (customer orientation, competitor orientation and interfunctional co-ordination); and two decision criteria – a long-term focus and a profit objective. From literature, they infer that the three behavioural constructs as of equal importance, depicting them in the figure of an equilateral triangle operating in a target market with the long-term and profit focus. For Narver and Slater (1990),

> customer and competitor orientation include all of the activities involved in acquiring information about buyers and competitors in the target market and disseminating it through the business(es); interfunctional coordination is based on the customer and competitor information and comprises the business's

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coordinated efforts, typically involving more than the marketing department, to create superior value for buyers.

Figure 1 below depicts the equilateral triangle and circle encompasing these constructs.

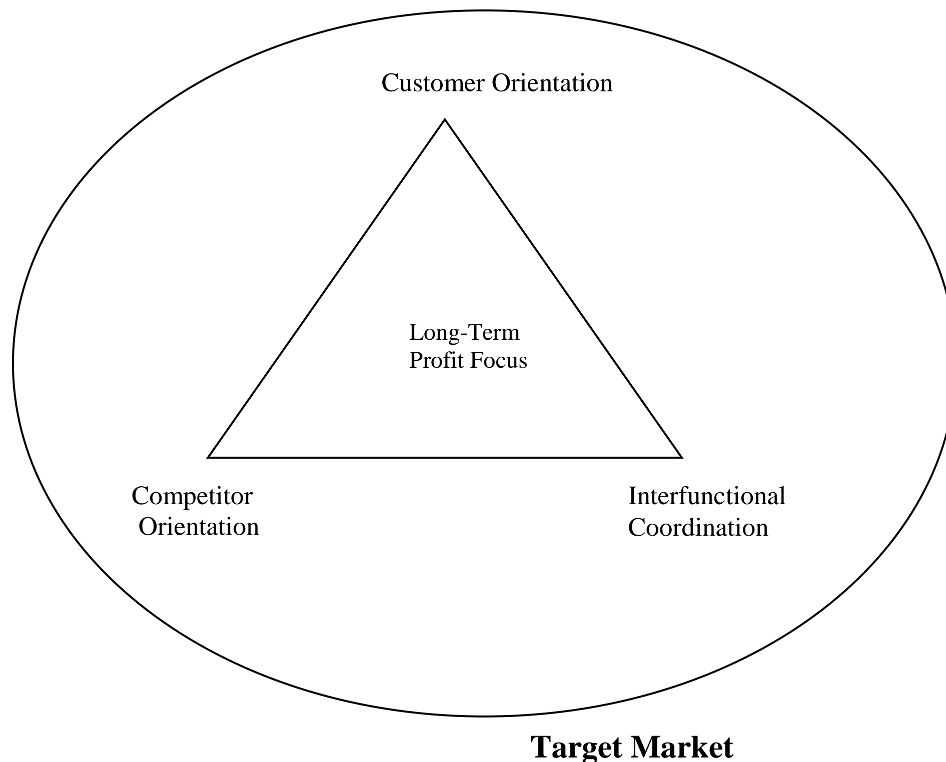

Figure 1: Market Orientation

Source: Narver and Slater (1990)

Market Orientation as a Moderator in the Relationship between Entrepreneurial Orientation and Firm Performance

Market Orientation (MO) is defined by Frishmmar and Horte (2007) as the process in which the needs of customers are satisfied, and this is done through assessment of continuous needs. The dimensions of Market Orientation include customer orientation, competitor orientation and coordination between departments. MO is a strategic management task that, if well applied within its dimensions, leads to successful business performances (Kreiser, Marino & Weaver, 2002). As a moderating variable, Market Orientation, as suggested by Narver and Slater (1990), includes the dimensions of customer orientation, competitor orientation and coordination between the departments. Li *et al.* (2008) highlight the various ways in which a firm shows orientation to the customer. Firms which are customer-oriented show a strong emphasis on customer satisfaction. Such companies also develop a strong emphasis in understanding the needs of the customer. They participate in the frequent and systematic measuring of the extent to which the customer is satisfied. Customer-oriented firms pay great attention to services, especially the after-sales services, and are frequently focused on

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increasing the customer value. Overall, such firms are characterized by high customer commitment practices.

A customer orientation approach is a Market Orientation strategy that, when combined with EO dimensions, can provide a competitive advantage to the firm and ensures the continual running of the business through customers' transactions (Dawes, 2000). Moreover, satisfied customers are likely to do business with the firm again and also invite fellow customers (Im *et al.*, 2007). The more the number of customers using the products of a particular firm, the higher the revenue that this firm will generate. Higher revenue also means that the firm will enhance its profitability and create more room for business growth and expansion (Noble *et al.*, 2002).

All the EO dimensions should be regulated with the customer in mind, such that the business carries out innovations that will benefit the customer (Coley *et al.*, 2010). Following this, the business takes risks the outcome of which will meet the customer needs, both at the present and the future. Third, the business involves itself in aggressive competition in order to retain its market share though holding on to existing customers and attracting newer ones. Fourth, the business is proactive in identifying opportunities for newer ventures for the purpose of satisfying the customer needs, and this can be achieved by addressing the emerging market problems, or by fulfilling areas of deficiency in the market (Langerak, 2003).

Baron and Kenny (1986) affirm that in statistics and regression analysis, moderation occurs when the relationship between two variables depends on a third variable. The third variable is referred to as the moderator variable or simply the moderator. The effect of a moderating variable is characterized statistically as an interaction that is a qualitative, for example, sex, race, class, or a quantitative, for example, level of reward, variable that affects the direction and/or strength of the relation between independent variable and the dependent variable. Specifically within a correlational analysis framework, a moderator is a third variable that affects the zero-order correlation between two other variables, or the value of the slope of the dependent variable on the independent variable (Baron & Kenny, 1986).

Theories of Entrepreneurship

The theory of entrepreneurship is a psychological approach to understanding entrepreneurship. It argues that any theory of entrepreneurship should use active actions as a starting point – entrepreneurship is the epitome of an active agent in the market, rather than a reactive agent. The term entrepreneur originally meant an owner-manager, often the founder of business, the person who combined the factors of production: land, labour and capital for productive use. It is now sometimes used to refer to the innovative manager, who may or may not be the owner, or for the manager who makes crucial decisions for the company (Dale, 1987). According to Petrin (1997), entrepreneurship is defined variously so that, to some, entrepreneurship means primarily innovation, to others it means risk-taking, while to others, a market stabilizing force and to others still, it means starting, owning and managing a small business. Tyson *et al.* (as cited in Petrin, 1997) view the entrepreneur as a person who either creates new markets, finds new sources of supply and new organizational forms; or as a person who is willing to take risks; or a person who, by exploiting market opportunities, eliminates disequilibrium between aggregate supply and aggregate demand, or as one who owns and operates a business. EO, therefore, encompasses creation of new combinations of production factors, new markets and new sources of supply and new organizational forms.

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Two theories of entrepreneurship were advanced for the study that informed this paper: the discovery theory and the creative theory of entrepreneurship.

The Discovery Theory of Entrepreneurship

This theory, also known as the Individual/Opportunity Nexus Theory, focuses on the existence of discovery and exploitation of opportunities and is grounded on three assumptions: “objectives and opportunities”, “individuals are unique”, and “entrepreneurs are risk-bearing” (Alvarez, n.d).

Opportunities have an objective component and they exist whether or not they are recognized. They are derived from the attributes of the industries or markets within which an entrepreneur contemplates action. If an entrepreneur understands the attributes or structure of an industry, he or she will be able to anticipate the kinds of opportunities present in that industry, for example, the primary opportunity in fragmented markets is consolidation in order to exploit economies of scale. The primary opportunity in mature industries is to refine products and undertake process innovation to improve quality and lower costs (Porter, 1980). Understanding entrepreneurial opportunities is, therefore, important because the characteristics of an opportunity influence the value they are likely to create.

Entrepreneurship requires differences in people and these differences manifest themselves in the ability to recognize opportunities (Shane, 2003). Individuals are alert to existing opportunities (Kirzner, 1973). Entrepreneurial alertness is an attitude of receptiveness of available but currently overlooked opportunities in a market (Kirzner, 1997). This assumption recognizes the entrepreneurial nature of human action taken and the human agent that is at all times spontaneously on the lookout for unnoticed market imperfections. The recognition of these market imperfections might inspire new activity (Alvarez & Barney, 2007). Entrepreneurial alertness is not a deliberate search, but is the constant scanning of the environment by the entrepreneur who notices market imperfections. The recognition of these imperfections is accompanied by a sense of 'surprise' of the imperfection that had not previously been recognized. The alert individuals are on the lookout for imperfectly distributed information about potentially mispriced resources that they may have access to before others. These opportunities exist independent of actors but the economic actor must act on the opportunity to earn profits.

Risk-bearing is a necessary part of the entrepreneurial process (Shane, 2003). “The individual/opportunity nexus assumes conditions of risk; the economic actor does not know with certainty whether the opportunity discovered will be successful; it has a probabilistic chance of being so.” Thus, the entrepreneurial process is about risk, not certainty. This theory relates to a number of the dimensions of entrepreneurial orientation – opportunity identification and development and entrepreneurial risk-taking.

The Creative Theory of Entrepreneurship

This theory is focused on the entrepreneur and the creation of the firm (Schumpeter, 1934; Shane, 2003). The theory is grounded on three major assumptions: opportunities are subjective; opportunities are not recognized, they are created, and entrepreneurs bear uncertainty. Opportunities are created through a series of decisions to exploit a potential opportunity. They are created by economic actors; they do not exist independently. Their existence holds the potential for profit generation. The theory assumes uncertainty, not risk.

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Under conditions of uncertainty, the attributes of an industry are either knowable, or are changing in ways difficult to predict. Opportunities must, therefore, be created and refined through a process of hypothesizing what the opportunity might be; testing the hypothesis, until it roughly correlates with what turns out to be objective opportunities in an industry (Alvarez, 2005).

Alvarez (2005) observes that examples are to be found in many industries, for instance, the electronics or the motor vehicle industries – firms like Samsung or Toyota cannot ask customers for guidance on how to create new products. Any new products they develop will be beyond the experience or potential of customers. These firms must, therefore, go through a process of generating new products, trying them with customers, discover which of them are reasonably accepted or successful; refine them to improve marketability. Opportunities are discovered by analyzing market and industry structures – "opportunity creation" – through hypothesis testing and learning. Opportunities do not exist independent of the actions of the entrepreneur but are created by the entrepreneur. People are not different; there are only differences in entrepreneurial decision-making under entrepreneurial uncertainty conditions. The entrepreneur is not autonomous but the creator of the opportunity. Decision-making occurs in the absence of correct procedures for exploiting existing resources.

Uncertainty, not risk, is a necessary condition for entrepreneurship, hence reliance on assumptions of uncertainty. Risk refers to the situation when two conditions exist: 1) when possible future outcomes of a decision are known and 2) when the probability of each of these outcomes are also known (Wald, 1950), hence, three positions: all possible future outcomes are known before decision-making; the probability of any one of these outcomes occurring is ≤ 1, but > 0; the probability of all outcomes occurring $= 1$. Uncertainty exists when possible outcomes of a decision and the probability of those outcomes are not known (Knight, 1921); decision-makers do not know that they do not know possible future outcomes (Shackle, 1972). This theory is relevant to entrepreneurial risk-taking and innovativeness, that is, creativity.

Entrepreneurial Innovativeness

According to Lumpkin and Dess (1996), innovativeness is the firm's tendency to engage in and support new idea, novelty experimentation and creative processes (Lumpkin & Dess, 1996). These may result in new products, services, or technological processes and which may take the organization to a new paradigm of success (Swierscek & Ha, 2003). Schumpeter (1934) points 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 *M*s of men, money, material, machine and management.

Statement of the Problem

Since 1987, the AMA has organized symposia annually on research in the marketing/entrepreneurship interface, resulting in the publication of many research papers on both EO and MO in the context of SMEs (Hill & Wright, 2000). Small and medium-sized enterprises (SMEs) play an important role in the world economy; they contribute substantially to income, output and employment and by number, they 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 (Kenya

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Export Promotion Council, 2013). They are viewed as key drivers of economic and social development in the African continent and represent a large number of businesses, generating enormous wealth and employment. They are widely regarded as vital to a 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).

Notwithstanding that Market Orientation and Entrepreneurial Orientation interface 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, it is noteworthy that 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. Some of these studies include Lumpkin and Dess (2001), Abu Hassim *et al.* (2011) and Ahlin *et al.* (2012), all of which provide an incomplete picture, especially in the case of mid-sized enterprises in developing countries. Nyanjom (2007) has studied how enterprises in Botswana can develop and enhance entrepreneurial innovation and encourage entrepreneurial activity within enterprises. Nyanjom's study, however, fails to address the moderating effect of marketing orientation on the relationship between EO and firm performance among mid-sized enterprises in Kenya.

Many more studies in Kenya (Lwamba *et al.*, 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, none of these studies has focused on mid-sized enterprises. For example, Mayaka (2006), in a study of leading Kenya companies, concentrated on the factors that lead to the companies' success in order to develop a case study. Therefore, the studies have been inconclusive as to which orientation moderates the relationship of the other with firm performance; they have failed to identify corporate entrepreneurship dimensions that lead to good performance of the enterprises and specifically mid-sized enterprises. Research was, therefore, necessary to explore the moderating effect of MO on the relationship between EO and firm performance, with a focus on Kenyan mid-sized enterprises during the period 2008-2013. Based on the study, this paper examines the effect of entrepreneurial innovativeness on firm performance and the moderating effect of marketing orientation on the relationship between entrepreneurial innovativeness and firm performance.

MATERIALS AND METHODS

This study employed an explanatory research design with its target population consisting of 600 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 was comprised of management staff and owner-managers of these medium sized

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firms. The study undertook a survey of all firms that qualified to be ranked among the "Top 100 best performing mid-sized firms in Kenya" during the period 2008-2013. Firms that appeared repeatedly were excluded in their subsequent appearances. This resulted in an actual survey of 536 firms.

Primary data sources were used to obtain the data required to fulfil the objectives of the study. Data was collected using questionnaires. The instrument was developed to fit the study through review of relevant literature in the fields of MO, EO and firm performance.

RESULTS AND DISCUSSION

Innovativeness

The study sought to establish the effect of innovativeness on firm performance. This construct had five (5) items which were measured using well-established measures on a 7-point Likert-type scale (1 = strongly disagree to 7 = strongly agree). 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 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.* (2009) 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 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 procesess and thereby put themselves in a position where they may generate extraordinary performance.

The skeweness 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.

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Table 1: Entrepreneurial Innovativeness and Firm Performance

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**	**2.0564**	**-.686**	**-1.034**

Source: Author (2015)

The test of the hypothesis on entrepreneurial innovativeness and firm performance revealed a strong and statistically significant relationship. Therefore, the results confirmed that entrepreneurial innovativeness is a key determinant of firm performance. These results are largely consistent with previous studies which reinforce the relationship between innovativeness and firm performance (Ambad & Wahab, 2013). Innovativeness is the most important dimension of EO and leads to increased market share, new product introduction and success, and overall firm performance. This is because firms value new product lines, and when it comes to problem solving, they value creative new solutions more than solutions that rely on conventional wisdom. They equally consider themselves as innovative companies. Indeed, SMEs that implement policies and procedures that promote innovativeness perform better than those that do not (Liu *et al.*, 2009).

CONCLUSION AND RECOMMENDATIONS

Entrepreneurial innovativeness is a key driver of firm performance of SMEs in Kenya. From the research results presented and discussed in this paper, it is evident that innovativeness is statistically significant in explaining firm performance. In other words, the propensity of a firm to be innovative has a direct relationship with the performance of the firm. Based on these findings, 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.

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