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The Role of Entrepreneurial Orientation on Firm Performance

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Abstract:

Recently, micro and small scale enterprises (MSEs) are becoming an important and growing sector of the economy that function in a competitive environment all over the world. There are various studies that focused on the role of entrepreneurial orientation on firm performance. However, the studies do not show a consistent result on the relationship between entrepreneurial orientation and firm performance. Thus, this study is conducted to assess the role of entrepreneurial orientation on firm performance in Robe and Goba town MSEs. For the purpose of this research work, stratified random sampling was employed to select samples from each sector, resulting in 244 sample respondents. Besides this, the study used cross sectional study design and mixed approaches. The research used primary and secondary data. The primary data for this research was gathered through questionnaires and secondary data was collected from books, journals, manuals, etc. The collected data was entered and organized using Epi data and analyzed using binary logistic regression model in SPSS version 20. The study result indicated that most of the MSEs

exhibited poor performance despite the existence of some entrepreneurial orientation dimensions. Thus, the researchers recommended the establishment of centers that can help MSEs in solving financial problems, provision of mentorship programs, more emphasis for women entrepreneurs, linking MSEs with potential buyers, and establishment of MSEs association.

Key words: entrepreneurial orientation, entrepreneurial orientation dimensions, logistic regression, firm performance.

1. Introduction

An organization is a collection of people working together in a division of labor to achieve a common purpose that ranges from clubs, voluntary organizations, and religious bodies to entities such as small and large businesses, labor unions, schools, hospitals, and government agencies (Schermerhorn, et.al, 2010).

Business enterprises are establishments for making business transactions so that they can maintain or increase their profits. In today's turbulent environment business organizations seek to adopt various techniques that can help them out perform their competitors. Firms in the dynamic atmosphere of modern global competition, despite rapid changes, have been increasingly committed to entrepreneurial activities in order to survive and improve their performance (Covin & Kuratko, 2008).

Entrepreneurship is the result of a disciplined, systematic process of applying creativity and innovation to needs and opportunities in the marketplace (Zimmerer and Scarborough, 2005). Besides this, Entrepreneurial orientation refers to a firm's strategic orientation, acquiring specific entrepreneurial aspects of decision-making styles, practices, and methods (Lumpkin & Dess 1996, cited in Li, 2008).

Considering the rapid increase of new rivals and creation of mistrust of traditional management methods in companies has necessitated the feeling for entrepreneurship in organizations. Naman & Slevin (1993) believe that companies have more tendency toward being innovative, risk-taking and leader in turbulent environments unlike static ones.

Having understood the importance of entrepreneurship as well as entrepreneurial orientation in organizations it is important for firms to strengthen their entrepreneurial orientation. As Dess et.al (1999) stated firms must have an entrepreneurial approach in order to improve their performance and consequently act as more competitive in the market.

EO has been identified in previous studies (like Effendi et.al, 2013, Kusumawardhani, 2013, Li, 2008) conceptually and empirically, as influencing firm performance. However, the EO literature suggests that some other studies could not show a significant and positive relationship between EO and firm performance. The fact that there is a mixed finding with respect to relationship between EO and firm performance suggests that further investigation of this relationship is necessary. Hence, the researchers tried to analyze the role of entrepreneurial orientation on MSEs Performance in Robe and Goba towns.

2. Literature review

Entrepreneurship is an attitude to management that seeks to accentuate innovation, flexibility, and responsiveness driven by the perception of opportunity, while providing more sophisticated and efficient management (Guth and Ginsberg, 1990; Naman and Slevin, 1993; Jogaratnam et al. 1999). EO is the degree of the phenomenon of companies that demonstrate a process, practice and decision-making activities that will lead the company to become a leader in the newly entered business (Kroeger, 2007). Covin and Slevin (1989) considered EO or strategic posture to embody frequent

and radical innovation, competitive aggression, pro activeness, autonomy, and a strong risk-taking propensity.

The Dimensions of Entrepreneurial Orientation

Innovativeness reflects 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 and which may take the organization to a new paradigm of success. An innovative strategic posture can be linked to firm performance as it increases the chances that a firm will realize first mover advantage, stay ahead of their competitors, gain a competitive advantage and capitalize on emerging market Opportunities that lead to improved financial results (Hult et. al, 2004).

The concept of entrepreneurship is directly related to risk taking. Coulthard (2007), citing Miller and Friesen, defines risk as the degree to which managers are willing to make large financial and risky commitments. The author also cites a study by Sarasvathy, Simon, and Lave (2007), which suggests that entrepreneurs are more likely to accept the risk as something that characterizes their everyday activity. Therefore, entrepreneurs assess opportunities differently from non-entrepreneurs.

Drawing on Miller's (1983) definition and prior research many authors (e.g., Burgelman, 1984; Hart, 1992; MacMillan & Day, 1987; Venkatraman, 1989a), identified competitive aggressiveness and autonomy as additional components of the EO construct. Competitive aggressiveness is the intensity of a firm's effort to outperform rivals and is characterized by a strong offensive posture or aggressive responses to competitive threats. Autonomy refers to independent action undertaken by entrepreneurial leaders or teams directed at bringing about a new venture and seeing it to fruition.

Pro-activeness is an opportunity-seeking, forward-looking perspective involving introducing new products or

services ahead of the competition and acting in anticipation of future demand to create, change and shape the environment (Lumpkin and Dess, 1996).

Entrepreneurial Orientation and Firm Performance

Performance is the level or result that is obtained which sometimes is used to get positive result (Aripin, et. al, 2013). Whereas business performance is the quality and quantity of the tasks achievement, both by individuals and by group or organization (Schermerhorn, 2003).

There is a general consensus that entrepreneurial orientation influences the performance of organizations, and entrepreneurial companies will have better performance and higher levels of product innovation. Zahra and Covin (1995) conclude that the relationship between entrepreneurial orientation and performance is direct and positive. And there is some evidence that this effect is more pronounced in turbulent markets.

In an environment of rapid change and shortened product and business model lifecycles, the future profit streams from existing operations are uncertain and businesses need to constantly seek out new opportunities. Therefore, firms may benefit from adopting an EO. Such firms innovate frequently while taking risks in their product- market strategies (Miller & Friesen, 1982). Efforts to anticipate demand and aggressively position new product/service offerings often result in strong performance (Ireland, Hitt, & Sirmon, 2003). Thus, conceptual arguments suggest that EO leads to higher performance. However, the magnitude of the relationship seems to vary across studies.

3. Research objective

The general objective of this study is to assess the role of entrepreneurial orientation on performance of MSEs in Robe and Goba towns.

4. Methodology

Description of the study area

Robe and Goba are one of the towns in the Oromia region of Ethiopia. According to an interview with the Zonal MSEs Agency Office (2015), there are 255 MSEs in Robe and 141MSEs in Goba. Additionally, the major sectors in which MSEs are involved includes construction, urban agriculture, industry, petty trade, and service.

Study design

Mixed approach was used in order to assess and analyze the role of entrepreneurial orientation on firm performance. The cross-sectional survey design was used since the data was collected from respondents at a point in time. This design is suitable to find out the prevalence of the situation or the phenomena as it stands at the time of the study (Kumar, 2005).

Description of the study subjects

The target populations in this study are MSE owners from constructions, urban agriculture, industry, and petty trade and services sectors in Robe and Goba town. According to zonal MSE agency there are 396 SMEs in Robe and Goba towns.

Sample size and procedure

As the number of MSEs in the towns is finite, the researchers used survey from finite population. A total number of 244 MSEs were taken as a sample using the following formula, which is presented in Kothari (2004).

$$n=\frac{Z^2.p.q.N}{e^2(N-1)+Z^2.p.q}$$

Where;
n = sample size of small business owner managers
P= sample proportion
q= 1-P
N= Total number of small businesses in Robe town
Z= Standardized normal variable and its value that corresponds to 95 % confidence interval equals 1.96
d = Allowable error (0.05)

According to information gathered from Robe town Administration Development Bureau, Department Of Information Management System, the sample size is determined to be;

$$n=\frac{1.96^2.0.5.0.5.396}{0.05^2(396-1)+1.96^2.0.05^2}=195$$

Therefore, the number of respondents taken was 244 MSE owner/managers (25% added in case of non-response).

Sampling procedure

The researchers used stratified random sampling as a probability sampling technique. The following table shows the number of MSEs under each sector in Robe and Goba towns and corresponding proportional sample size.

Table 3.1: Number of MSEs in each stratum and corresponding proportional sample size

Trade kind	Number of MSEs	Proportional Sample size (n×P), where P=no. of MSE/N
Constructions	45	28
Urban agriculture	93	57
Industry	38	23
Petty trade and service	220	136
Total	396	244

Source: Bale zone MSE development agency, 2015

Instruments

The researchers used both primary and secondary data in order to gather relevant information. For the primary data, the researchers distributed self-administered questionnaire to the selected respondents (both Amharic and Oromifa). The questionnaire included both open ended and close-ended type of questions where the close-ended questions were formed as a 5-point likert scale. For the secondary data, the researcher used books, journals, reports, conference proceedings, and other published secondary sources.

Data analysis procedure

Concerning data processing, the researchers performed the data editing, coding, data entry and data cleaning activity in order to check the consistency of the data that was collected from the respondents. As far as data entry is concerned, the researchers used EpiData version 3.1 to enter the data gathered using questionnaire.

In data analysis, the researchers employed qualitative method of analysis for the open ended questions and quantitative methods of analysis for close ended questions and econometrics part, which were calculated using SPSS software version 20.

Econometrics Model specification

Logit model

According to the model from Gujarati (2004), the Logit model for the role of entrepreneurial orientation on performance of MSE firms is as follows:

$$P(Y_i = 1) = \frac{1}{1+e^{-(\beta_i X_i)}} \quad \text{..... (1)}$$

$$P(Y_i = 1) = \frac{1}{1+e^{-Z_i}} \quad \text{..... (2)}$$

Where: P (Yi=1) is the probability that MSEs have good performance, Zi= the function of a vector of explanatory variables, e- represents the base of natural logarithms and equation (2) is the cumulative product stocking function. If P (Yi=1) is the probability that MSEs have good performance, then 1- P (Yi=0) represents the probability that MSEs have poor performance is expressed as:

$$1 - P(Y_i = 1) = 1 - \frac{1}{1+e^{-Z_i}} = \frac{1}{1+e^{Z_i}} \quad \text{..... (3)}$$

$$\frac{P(Y_i=1)}{1-P(Y_i=1)} = \frac{1+e^{Z_i}}{1+e^{-Z_i}} = e^{Z_i} \quad \text{..... (4)}$$

Equation (4) simply is the odds ratio, the ratio of the probability that MSEs have good performance to the probability that MSEs have poor performance. Taking the natural log of equation (4), we obtain

$$L_i = \ln\left(\frac{P(Y_i=1)}{1-P(Y=1_i)}\right) = Z_i \quad \text{..... (5)}$$

Where:

Li is the log of the odd ratio which is not only linear in the explanatory variables but in the parameters also. Thus, introducing the stochastic error term (U_i), the Logit model can be written as;

$$Z_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \cdots + \beta_n X_n + U_i \quad \text{..... (6)}$$

Where Xi's = are explanatory variables that affect the performance of MSE firms, and ßo is the constant term and ßi's are coefficients to be estimated.

Operational definition of variables

Dependent variable

Firm performance: firm performance is the management decisions' outcome to achieve particular objective in effective and efficient way (Effendi et al., 2013). Performance, most of

the time, implies positive aspect and it can be measured from different perspectives. For the sake of this study, the researchers used growth in sales, return on investment, operating profit margin, and return on equity, and customer retention in a five point likert scale to measure firm performance.

Explanatory variables

The following variables affect performance of small business firms

1. **Innovation**: is the reflection of company's tendency toward new ideas and creative processes, the result of which may exist in new products, services or technological processes.
2. **Risk taking**: indicates tendency of companies toward allocation of basic resources to the projects which have success or failure possibility in them. Furthermore, risk-taking can be referred to rapid pursuing of opportunities, rapid provision of resources and bold activities.
3. **Autonomy**: is the ability to work independently, make decisions, and take actions aimed at bringing forth a business concept and carrying it through to completion.
4. **Competitive aggressiveness**: is the intensity of a firm's efforts to outperform rivals and is characterized by a strong offensive posture or aggressive responses to the actions of competitors.
5. **Proactiveness:** is an opportunity seeking forward looking perspective characterized by the introduction of new products/services ahead of the competition and acting in anticipation for future demand.

5. Results and Discussion

Results of descriptive analysis

General background

Basically, the urbanization process creates a good opportunity for business enterprises in general and MSEs in specific. Table 4.1 shows that 145 (62%) of the respondents were from Robe town whereas 89 (38%) were from Goba town. This implies that MSEs in Robe town dominate Goba town in number due to some infrastructural advantages.

The sectors in the study area were divided into four categories. Hence, Robe and Goba town MSEs represented by 18.4% were from the construction sector, 35.9% were manufacturers, 20.1% were from urban agricultural product producers, and 25.6% were those in service sector.

Firms' size (business type) was identified according to their capital. Thus, 37% were those firms categorized as small businesses and 63% were those categorized as micro businesses. According to the survey result of the study, there were 138 male respondents and 96 female respondents who participated in the study totaling 234 respondents. From this, female respondents account 41% whereas male respondents account 59% implying male dominant enterprises in the study area.

With regard to the age of respondents the survey result shows that 58 female and 75 male respondents fall in the category of 18-29 forming 65.9% and 56% respectively; 30 female and 57 male respondents fall in the category of 30-49 forming 34.1% and 42.5% respectively; and 2 female respondents fall in the category of 50-64 forming only 1.5%. This shows that the age bracket was dominated by male young age groups and there is an indication of high attention for youths at the local level.

The survey on educational background reveals that 8 of the respondents with 3.4% cannot read and write whereas 70 of

the respondents were having elementary education forming 30%. Similarly, 70 of the respondents with 30% were having a high school education, 60 of the respondents were having diploma forming 25.6%, 22 respondents with 9.4% were having first degree, and only 4 respondents were having masters degree with 1.6%. This implies that majority of the respondents were capable enough to understand their business environment.

Awareness about EO

From table 4.4, 90 respondents with 38.4% showed their disagreement or strong disagreement on the presence of adequate training. On the opposite side, 94 respondents with 40.2% showed their agreement or strong agreement on the presence of adequate training. The remaining 50 respondents with 21.4% staid neutral on this issue having an overall mean score of 3.00. This implies that majority of the respondents have got an exposure to technical training that can help them run their businesses effectively.

With respect to familiarity to product/service innovation 113 respondents with 48.3% showed their disagreement or strong disagreement on familiarity of product/service innovation. On the other hand, 67 respondents with 28.6% showed their agreement or strong agreement on familiarity of product/service innovation. The remaining 54 respondents with 23.1% assumed a neutral position on this issue yielding a mean score of 2.68. This implies that majority of the respondents are not aware of product/service innovation.

In case of business risk taking 98 respondents with 41.9% indicated that they are well informed about business risk taking. On the other hand, 91 respondents with 38.9% indicated that they are not well informed about business risk taking. The remaining 45 respondents with 19.2% remained neutral on the issue yielding a mean score of 2.85. This implies that majority of the respondents are well informed about business risk taking

and are expected to take calculated risks in the business environment.

The next item under the awareness category is essence of autonomy. From the total respondents, 120 respondents with 51.3% indicated that they did not understand the essence of autonomy. On the contrary, 93 respondents with 39.7% understood the essence of autonomy. The remaining 21 respondents with 9% assumed neutral position on the issue yielding a mean score of 2.83. From this one can infer that majority of the enterprises do not want to give freedom for their employees.

In relation to proactiveness, 61 respondents with 26% responded that they do not know how to react before a problem happens. On the other side, 135 respondents with 57.7% indicated that they know how to react before a problem happens. The remaining 38 respondents with 16.2% remain neutral on this issue yielding a mean score of 3.5. From this we can understand that the enterprises are familiar with reacting before a problem happens.

The final element under awareness section is competitive aggressiveness. Accordingly, 71 respondents with 30.3% indicated that they have not experienced competitive aggressiveness in their enterprise. On the contrary, 113 respondents with 48.3% indicated that they have experienced competitive aggressiveness in their enterprise. The remaining 50 respondents with 21.4% remain neutral on the issue yielding a mean score of 3.26. This implies that in one or another way the enterprises have passed through an aggressive competition. This was also supported by the comment of one respondent indicating that lack of consumers forced MSEs to scramble over a few number of available consumers and hence creating an aggressive competition.

In general, from the six items majority of the respondents were able to take short term training and were aware of business risk taking, proactiveness, and competitive

aggression. However, respondents were not aware of the concept of autonomy and product/service innovation.

Entrepreneurial orientation dimensions

As stated by Awang, et.al, (2010) entrepreneurial orientation has five dimensions, namely innovation, risk taking, autonomy, competitive aggression, and proactiveness. Hence, this section describes each of the five dimensions along with their sub items.

Innovation

As per the constructs in the questionnaire there are three items under this dimension, namely considering new idea as important, firm treats usage of new method important, and firm frequently changed product.

From table 4.5, 49 respondents with 21% indicated that their firm does not consider new product or service as very important. On the other hand, 162 respondents with 69.2% indicated that their firm considers new product/service idea as very important. The remaining 23 respondents with 9.8% assumed neutral position with a mean score of 3.76. This implies that majority of the respondents give due emphasis for new product/service idea.

Another item from the innovation category is treating usage of new methods as important. With this respect 49 respondents with 20.9% showed their disagreement or strong disagreement to the issue. On the contrary, 163 respondents with 69.7% showed their agreement or strong agreement on the issue and the remaining 22 respondents with 9.4% assumed neutral position with a mean score of 3.76. This implies majority of the respondents have positive attitude towards the treatment of new idea in their enterprise.

Most of the time innovative firms frequently change their products/services. Accordingly, 93 respondents with 39.8% indicated that they do not frequently change product/service.

On the other hand, 95 respondents with 40.5% agreed that they frequently change product/service. The remaining 46 respondents with 19.7% remained neutral on the issue with a total mean score of 3.14. Under this item most of the respondents experienced product/service change while nearly similar number of respondents stuck with the existing product/service which makes it difficult to say the enterprises are changing their product/service frequently as needed.

In general, from the three items majority of the respondents were in agreement or strong agreement with the idea that new product/service and treating new product/service is important. However, there is an issue of not frequently changing product/service. Overall this dimension implies good innovativeness among the MSEs.

Risk taking

Under risk taking dimension there are four items, namely investing highly in marketing, spending large amount of money in new product or service, willing to risk personal or family material, and adopting follow the leader strategy.

The survey result in table 4.6 shows 123 respondents with 52.5% did not invest heavily in marketing. On the other side, 78 respondents with 33.4% said they have invested heavily in marketing. The remaining 33 respondents with 14.1% remained neutral on the issue with a total mean score of 2.69. This implies that the enterprises did not want to take risk by heavily investing in marketing.

In another item, spending large amount of money in new product/service, 107 respondents with 45.7% showed their disagreement or strong disagreement with the idea of spending large amount of money in new product/service. On the other hand, 77 respondents with 32.9% showed their agreement or strong agreement on the idea of spending large amount of money in new product/service. The remaining 50 respondents with 21.4% assumed neutral position on the issue having a total

mean score of 2.79. One can understand from this result that the enterprises tried to avoid risk by not investing in new product/service.

In case of the third item in table 4.6, 79 respondents with 33.7% showed no interest in willing to risk their personal or family material for business purpose. On the contrary, 100 respondents with 42.7% agreed to risk their personal or family material for business purpose. The remaining 55 respondents with 23.5% remained neutral on the issue scoring a total mean of 3.15. From this one can understand that the enterprises are risk takers on this particular issue.

In general, from the three items majority of the respondens were found to be willing to risk their personal and family material. However, in the remaining issues the enterprises were found to be risk averters. Thus, the overall risk taking characteristic of the enterprises can be taken as risk averting.

Autonomy

Under autonomy dimension there are four items, namely favoring new idea, encouraging employees to newness, ignoring employment rules, and making employees free to make decision.

The survey result in table 4.7 shows 74 respondents with 31.6% did not favor new ideas beyond rules and regulations. On the other side, 122 respondents with 52.2% said they have favored new ideas. The remaining 38 respondents with 16.2% remained neutral on the issue with a total mean score of 3.26. This implies that the enterprises were entertaining and encouraging new ideas.

In another item, encouraging employees, 45 respondents with 19.2% did not encourage employees to implement newness. On the other hand, 146 respondents with 62.4% encouraged their employees to implement newness. The remaining 43 respondents with 18.4% assumed neutral position on the issue

having a total mean score of 3.64. From this we can understand that the enterprises tried to encourage their employees so that they can implement newness and exercise autonomy.

In case of the third item in table 4.7, 75 respondents with 32% said their firm follows employment rules to involve workers in new ideas. On the contrary, 122 respondents with 52.2% said their firm ignores employment rules to involve workers in new ideas. The remaining 37 respondents with 15.8% remained neutral on the issue scoring a total mean of 3.4. From this one can understand that the enterprises gave freedom for employees to raise their ideas with much flexibility. With respect to freedom of employees, 74 respondents with 53% showed their disagreement or strong disagreement in making employees free to make decision. On the other side, 79 respondents with 33.8% inclined to agree or strong agree on the issue. The remaining 31 respondents with 13.2% assumed neutrality with a total mean score of 2.81. From this we can infer that the enterprises follow a centralized decision making approach by giving less freedom for employees.

In general, from the four items majority of the respondents were entertaining new ideas, encouraging employees, and gave freedom for employees to raise their ideas with much flexibility. Thus, the enterprises indicated the presence of autonomy.

Competitive Aggressiveness

Under autonomy dimension there are four items, namely acting boldly to achieve objective, adopt competitive posture, act promptly to reduce loss, and always lead the market.

The survey result in the above table 4.8 shows 66 respondents with 28.2% disagreed or strong disagreed on the issue that the firm acts boldly to achieve objectives. Additionally, 146 respondents with 62.4% agreed or strongly agreed on the issue. The remaining 22 respondents with 9.4% remain neutral. Overall, the item scored a mean value of 3.52.

This implies that the respondents move aggressively to achieve their objectives.

In relation to adopting competitive posture 112 respondents with 47.9% believe that they do not adopt a competitive posture. On the other hand, 95 respondents with 40.6% believe that they have a competitive posture. The remaining 27 respondents with 11.5% assumed a neutral position. Overall, the item scored a mean value of 2.22. This implies the enterprises are not supported well with technical, market, and financial provisions.

The third item in table 4.8 shows that 70 respondents with 29.9% did not act promptly to reduce losses. On the other hand 147 respondents with 62.8% agreed that they have acted promptly to reduce losses. The remaining 17 respondents with 7.3% remain neutral on the issue. From this result one can understand that the enterprises were keen in preparing themselves to reduce losses that may happen to their business.

In relation to leading the market, 76 respondents with 32.5% said they rarely lead the market. On the contrary, 118 respondents with 50.5% said they always lead the market. The remaining 40 respondents with 17.1% assumed neutral position. This implies MSEs under the study area were good enough in leading the market despite lack of adequate financial, market, and technical support.

Generally, the enterprises acted boldly to achieve their objectives, acted promptly to reduce loss, and led the market. However, the enterprises did not adopt a competitive posture. Thus, the enterprises tend to have competitive aggression.

Proactiveness

Under proactiveness dimension there are three items, namely taking unrelated opportunities, stop selling old products/services, and initiate actions in dealing with competitors.

The survey result in the above table 4.9 shows 114 respondents with 48.8% either disagreed or strongly disagreed on the issue of taking unrelated opportunities. Additionally, 75 respondents with 32% either agreed or strongly agreed on the issue. The remaining 45 respondents with 19.2% remain neutral. Overall, the item scored a mean value of 2.77. This implies the respondents did not take proactive measure by taking unrelated opportunities.

In relation to stopping sales of old products, 114 respondents with 48.8% believe that they keep selling old products when the market introduces new one. On the other hand, 61 respondents with 26% said they stop selling old products. The remaining 59 respondents with 25.2% assumed a neutral position. Overall, the item scored a mean value of 2.71. This implies the enterprises were going against consumers demand by providing out fashioned products/services.

The third item in table 4.9 shows that 94 respondents with 40.2% did not initiate actions in dealing with competitors. On the other hand 101 respondents with 43.2% either agreed or strongly agreed on the issue. The remaining 39 respondents with 16.7% remain neutral on the issue. Overall this item scored a mean value of 3.09 and from this result one can understand that the enterprises were active in initiating actions for competition.

Generally, the enterprises did not take unrelated opportunities and stuck with old products/services. However, the enterprises were active in initiating actions. Thus, the enterprises have less proactive tendency.

The Role of Entrepreneurial Orientation on Firm Performance:

Econometric analysis

Firm Performance

According to the survey result, majority of the respondents (126, 53.8%) reported that they have poor performance. On the other hand, 108 respondents with 46.2% said they have good performance.

In order to answer the third specific objective, the researchers tried to use Econometric analysis, with the help of SPSS software, in addition to descriptive statistics. Accordingly the researchers applied logistic regression model to this particular objective.

For multicollinearity test, the researchers used correlation matrix; in this test result, as a rule of thumb, if the correlation between two independent variables is less than 50%, it is free from multicollinearity problem. Hence, the data and variables met the assumption underlying the logistic regression model.

Reliability

The reliabilities of the variables (data) were checked against the recommended **standards** (Cronbach's alpha ≥ 0.70) mainly to ensure that they are reliable indicators of the constructs (Muijs, 2004).

Thus, the Cronbach's alpha calculated during pilot test confirms that the items score an alpha value of 0.865 for the EO dimensions and 0.721 for firm performance items, which is consistent enough to adequately represent the entrepreneurial orientation of MSEs and their performance.

Factor Analysis

Before factor analysis is conducted, the adequacy of the data collected from the sample were checked using Bartlett's Test of Sphericity and Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy. In this study, factor analysis was performed on 18 items (variables) that measure entrepreneurial orientation of MSEs. Accordingly, these variables were checked for sampling adequacy using Bartlett's Test of Sphericity and Kaiser-Meyer-Olkin (KMO). From Table 4.11 Kaiser-Meyer-Olkin (KMO) test shows that there are probably significant relationships among the EO dimensions. As Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy is close to 1 the factors are reliable, 0.810>0.5, (Field, 2005) and Bartlett's Test of Sphericity, χ^2=1403.585, p=0.000<0.05 is statistically significant, which shows that the variables are correlated highly enough to provide a reasonable basis for factor analysis. Hence, it is possible to perform factor analysis for the variables under study.

Table 4.11: KMO and Bartlett's test

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.810
Bartlett's Test of Sphericity	Approx. Chi-Square	1403.585
	df	120
	Sig.	.000

Source: survey, 2015

An exploratory factor analysis using principal components has been applied using 18 items. Factors were obtained using varimax rotation and only those factors with an Eigen value greater than one are considered. For factor analysis in varimax rotation convergence established after eight iterations and 65.264% of the total variance was explained by the first five factors with Eigen values greater than one.

According to the result of principal component analysis, five components were extracted with eleven items in it. They are Our firm treats usage of new method as very important,

Our firm considers new idea/approach as very important, Our firm frequently changes product/services since last 5 years, Our firm typically adopt a very competitive posture, Our firm always lead the market, Our firm acts boldly in order to achieve objectives, Our firm invests heavily in marketing, Our firm spends large amount of money in new product/services, Our firm always take unrelated opportunities, Our employees are free to make decision, and I am willing to risk my personal and family's material well-being for the sake of business.

From total variance explained table, it was found that the first factor is the most significant which accounts for 33.274% of the variance of the original items. This is largely loaded with innovation practice and thus, this factor is labeled as firms' innovativeness. The second factor, which captures 43.732% of the total information, comprised of three items, and largely loaded by competitive aggressiveness; hence, it is labeled as competitive aggression. The third factor comprised of three attributes that shows high loading on risk captures 52.55% of the total information; so it is labeled as risk taking. The fourth factor, comprising one item, explains 59.227% of the total variance and is loaded by autonomy. Accordingly, it is labeled as autonomy. The fifth factor explains 65.264% of the total variance and is loaded on proactiveness. Accordingly, it is labeled as proactiveness.

Table 4.12: Rotated component matrix

Rotated Component Matrix[a]					
	Component				
	1	2	3	4	5
Our firm treats usage of new method as very important	.844				
Our firm considers new idea/approach as very important	.804				
Our firm frequently changes product/services since last 5 years	.731				
Our firm typically adopt a very competitive posture		.821			
Our firm always lead the market		.820			

Our firm acts boldly in order to achieve objectives		.721			
Our firm invests heavily in marketing			.845		
Our firm spends large amount of money in new product/services			.694		
I am willing to risk my personal and family's material well-being for the sake of business			.659		
Our employees are free to make decision				.691	
Our firm always take unrelated opportunities					.839
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.					
a. Rotation converged in 6 iterations.					

Source: survey, 2015

Binary logistic regression analysis

The five constructs obtained from factor analysis were used for binary logistic regression. Accordingly, each explanatory variable was regressed with the dependent variable and those significant variables were brought to the final model. The result shows that four of the explanatory variables were found to be significant predictors of firm performance. These are innovation, autonomy, competitive aggression, and proactiveness. Before giving interpretation, it is necessary to assess the model for goodness-of- fit.

The model summary of Cox and Snell and Nagelkerke R^2 provide some approximations of R^2 statistic in logistic regression (See Table 4.13). Cox and Snell's R^2 attempts to impersonate multiple regression's R^2 based on likelihood. In this study, Cox and Snell R^2 indicate that 25.1% of firms' performance is explained by the explanatory variables. Nagelkerke's R^2 has a score of 33.5%, which indicates that 33.5% of the variability in the firms' performance was explained by the explanatory variables.

Table 4.13: Model summary

Step	-2Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	255.516[a]	.251	.335

Source: survey, 2015

Another way of assessing the goodness of the fit model is to see how well the model classifies the observed data. Therefore, we often want to look at the proportion of cases we have managed to classify correctly. The overall accuracy of the model to predict firms' performance shows that out of the 234 MSEs, 69.7% were correctly predicted.

The results of logistic regression analysis are given in Table 4.14 below. The results revealed that innovativeness, autonomy, competitive aggressiveness, and proactiveness contributed significantly to the prediction of firm performance.

Table 4.14: logit results, dependent variable = firm performance

Predictor variables	B	S.E.	Wald	df	Sig.	Adjusted Odds Ratio	95.0% C.I.	
							Lower	Upper
Innovativeness (Ref)			10.817	4	**.029**			
Innovation (1)	-1.194	1.114	1.149	1	.284	.303	.034	2.689
Innovation (2)	-2.299	.713	10.405	1	.001	.100	.025	.406
Innovation (3)	-.165	.519	.100	1	.751	.848	.306	2.348
Innovation (4)	-.272	.455	.357	1	.550	.762	.312	1.859
Autonomy (Ref)			10.553	4	**.032**			
Autonomy (1)	-.088	.615	.021	1	.886	.916	.274	3.054
Autonomy (2)	.335	.503	.444	1	.505	1.398	.522	3.744
Autonomy (3)	-.795	.619	1.650	1	.199	.451	.134	1.519
Autonomy (4)	1.081	.635	2.899	1	.089	2.946	.849	10.222
Comp agres (Ref)			12.011	4	**.017**			
Comp agres (1)	-21.537	14.68	.000	1	.999	.000	.000	.
Comp agres (2)	-1.474	.617	5.710	1	.017	.229	.068	.767
Comp agres (3)	-.828	.627	1.742	1	.187	.437	.128	1.494
Comp agres (4)	.371	.446	.692	1	.406	1.449	.605	3.471
Proactiveness (Ref)			11.409	4	**.022**			

Proactiveness (1)	.532	.666	.639	1	.424	1.703	.462	6.278
Proactiveness (2)	1.736	.605	8.228	1	.004	5.674	1.733	18.580
Proactiveness (3)	.834	.665	1.573	1	.210	2.303	.625	8.482
Proactiveness (4)	1.234	.637	3.750	1	.053	3.436	.985	11.985
Constant	-.504	.627	.645	1	.422	.604		

Source: survey, 2015

The results in Table 4.14 show that innovativeness, autonomy, competitive aggressiveness, and proactiveness have a negative relationship with firm performance and are statistically significant at $p<0.05$. Therefore, the effect of each of the explanatory variables on the dependent variable is described and discussed as follows.

Respondents who either agree or strongly agree with the existence of innovativeness were 1.312 (1/0.762) times more likely to have poor performance than the reference category (those who strongly disagree with the existence innovation in their firm) at 5% level of significance.

The relationship between autonomy and firm performance was also found statistically significant at 5% level of significance. The odds ratio shows that firms with strong agreement on the existence of autonomy in their firm are 2.946 times more likely to have poor performance than firms with strong disagreement on the issue.

Another variable, which was found statistically significant, was competitiveness. Comparing the odds of firm performance based on their agreement, those who strongly agree with the existence of competitiveness were 1.449 times more likely to have poor performance than those who strongly disagree with the issue.

Proactiveness has also significance at 5% significance and respondents who either agree or strongly agree with the existence of proactiveness were 3.436 times more likely to have poor performance than the reference category.

The above result shows EO has a negative effect on business performance. This finding contradicts the widely held

belief that there is a consistently positive relationship between EO and firm performance. However, this result is in line with the finding of Frank, et.al, (2010), a replication study conducted in Europe. These researchers stated that this negative effect is most clearly evident in the case of a dynamic environment with low access to financial capital. They also explained this event in a way that efforts to innovate that are undertaken with excessively low capital investment will be rendered ineffective, thus creating a negative cost/benefit relation.

6. Conclusion and Recommendations

Conclusion

The study result showed males domination in MSE establishments (female respondents account 41% whereas male respondents account 59%) implying less emphasis for females in the study area. Additionally, most respondents were not aware of the concept of autonomy and product/service innovation among the five EO dimensions.

Majority of the respondents indicated that they did not frequently change products/services and did not adopt a competitive posture because of lack of financial and market facilities. Besides this, majority of the respondents indicated that they were willing to risk their personal and family material. However, they fear risk of bankruptcy if they invest heavily in marketing and new product/service.

Finally, innovativeness, autonomy, competitive aggressiveness, and proactiveness were found to have a negative relationship with firm performance at 5% significance. Theoretically, EO dimensions are positively related to firm performance. However, the result showed a negative relationship.

Recommendations

It is highly recommended for concerned government bodies, like MSE agency and trade and industry bureau, to strengthen the market capacity of MSEs by establishing a market linkage for their products and services. One way to accomplish this could be arranging a trade fair and making arrangement with medium to large industries so that MSEs can permanently get access to relatively stable market outlets.

It is also highly advisable for MSE agency to monitor the financial status of MSEs and act as a contact center for governmental and nongovernmental funds. This can be done by establishing a center that can bring MSEs and sponsors together so that the enterprises financial problem will be solved. Additionally, it is recommended for MSE agencies to arrange a credit transaction scheme for MSEs so that they can purchase materials on credit during financial difficulties.

It is advisable for MSE agencies to promote female entrepreneurs participation in business activities. This could be achieved by arranging a special training and giving quota for women entrepreneurs in business establishments.

It is worth for community service providers, like Madawalabu University and nearby NGO's, to arrange a regular mentorship program on important aspects such as autonomy, product/service innovation, calculated risk taking, proactiveness, and customer satisfaction so that MSEs can take advantage of the EO dimensions. It is also important to follow up the status of MSEs after the program.

It is recommendable for MSEs to identify their potential before starting a business. This could be done by regularly consulting business advisors and successful entrepreneurs in their locality.

As indicated in the conclusion part MSEs did not adopt a competitive posture. To alleviate this problem MSEs in the study area should establish their own association with its own

rules and regulations so that they will strengthen their competitiveness in the market.

The relationship between firms' performance and EO dimensions brought unexpected result that shows a negative relationship between them. Thus, it is advisable for MSE agency, finance, and trade and industry office to provide MSEs with adequate capital.

Finally, the researchers recommend further studies by including moderator variables (like environmental dynamism) in the relationship between entrepreneurial orientation and firm performance.

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Appendix

Descriptive results in tabluar form

Table 4.1: Location of the enterprises

Location		Frequency	Percent
Towns	Goba	89	38.0
	Robe	145	62.0
	Total	234	100.0

Source: survey, 2015

Table 4.2: Business sectors

Sector	Frequency	Percent
Construction	43	18.4
Manufacturing	84	35.9
Urban agriculture	47	20.1
Service	60	25.6
Total	2.34	100

Source: survey, 2015

Table 4.3: Age of the respondents by Sex

			Sex		Total
			Female	Male	
Age	18-29	Count	58	75	133
		% within sex	65.9%	56.0%	59.9%
	30-49	Count	30	57	87
		% within sex	34.1%	42.5%	39.2%
	50-64	Count	0	2	2
		% within sex	0.0%	1.5%	0.9%
Total		Count	88	134	222
		% within sex	39.6%	60.4%	100.0%

Source: survey, 2015

Table 4.4: Awareness of the respondents

Res	Training		Familiarity with innovation		Business risk		Essence of autonomy		Proactive		Competitive aggression	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
SD	32	13.6	51	21.8	55	23.5	43	18.4	27	11.5	23	9.8
D	58	24.8	62	26.5	43	18.4	77	32.9	34	14.5	48	20.5
N	50	21.4	54	23.1	45	19.2	21	9.0	38	16.2	50	21.4
A	65	27.8	44	18.8	64	27.4	63	26.9	64	27.4	72	30.8
SA	29	12.4	23	9.8	27	11.5	30	12.8	71	30.3	41	17.5
Tot.	234	100	234	100	234	100	234	100	234	100	234	100
X	3.00		2.68		2.85		2.83		3.5		3.26	
SD	1.255		1.275		1.358		1.351		1.359		1.244	

Source: survey, 2015

SD= strongly disagree D = disagree A= agree N = neutral SA= strongly agree X= mean SD= standard deviation

Table 4.5: Innovativeness

Res	New product is important		Treat usage of new method as important		Frequent product change	
	Freq	%	Freq	%	Freq	%
SD	21	9.0	31	13.2	18	7.7
D	28	12.0	18	7.7	75	32.1
N	23	9.8	22	9.4	46	19.7

A	77	32.9	69	29.5	47	20.1
SA	85	36.3	94	40.2	48	20.5
Tot.	234	100	234	100	234	100
X	3.76		3.76		3.14	
SD	1.302		1.395		1.280	

Source: survey, 2015

Table 4.6: Risk taking

Res	Investing highly in marketing		Spending large amount of money in new product or service		Willing to risk personal or family material	
	Freq	%	Freq	%	Freq	%
SD	56	23.9	56	23.9	31	13.2
D	67	28.6	51	21.8	48	20.5
N	33	14.1	50	21.4	55	23.5
A	50	21.4	41	17.5	55	23.5
SA	28	12.0	36	15.4	45	19.2
Tot.	234	100	234	100	234	100
X	2.69		2.79		3.15	
SD	1.359		1.389		1.313	

Source: survey, 2015

Table 4.7: Autonomy

Res	Favoring new idea		Encouraging employees		Ignoring employment rules		Making employees free to make decision	
	Freq	%	Freq	%	Freq	%	Freq	%
SD	34	14.5	23	9.8	19	8.1	36	15.4
D	40	17.1	22	9.4	56	23.9	38	37.6
N	38	16.2	43	18.4	37	15.8	31	13.2
A	75	32.1	74	31.6	57	24.4	43	18.4
SA	47	20.1	72	30.8	65	27.8	36	15.4
Tot.	234	100	234	100	234	100	234	100
X	3.26		3.64		3.40		2.81	
SD	1.348		1.277		1.330		1.327	

Source: survey, 2015

Table 4.8: Competitive Aggressiveness

Res	Acting boldly		Adopt competitive posture		Act promptly to reduce loss		Always lead the market	
	Freq	%	Freq	%	Freq	%	Freq	%
SD	29	12.4	56	23.9	36	15.4	36	15.4
D	37	15.8	56	23.9	34	14.5	40	17.1
N	22	9.4	27	11.5	17	7.3	40	17.1
A	76	32.5	62	26.5	85	36.3	50	21.4
SA	70	29.9	33	14.1	62	26.5	68	29.1
Tot.	234	100	234	100	234	100	234	100
X	3.52		2.22		3.44		3.32	

SD	1.384	1.409	1.414	1.439

Source: survey, 2015

Table 4.9: Proactiveness

Res	Taking unrelated opportunities		Stop selling old products/services		In dealing with competitors, my firm usually initiates actions	
	Freq	%	Freq	%	Freq	%
SD	41	17.5	46	19.7	44	18.8
D	73	31.2	68	29.1	50	21.4
N	45	19.2	59	25.2	39	16.7
A	49	20.9	31	13.2	43	18.4
SA	26	11.1	30	12.8	58	24.8
Tot.	234	100	234	100	234	100
X	2.77		2.71		3.09	
SD	1.273		1.282		1.464	

Source: survey, 2015

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