

**EFFECT OF ENTREPRENEURIAL ORIENTATION ON PERFORMANCE OF  
COMMERCIAL BANKS IN KENYA**

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**DECLARATION**

This research project is my original work and has not been presented for a degree in any other University

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This research Proposal has been submitted for examination with my approval as University

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## **DEDICATION**

I dedicate this work to my family and friends for the sacrifices they made for me to complete this research Proposal, their support, encouragement and enthusiasm inspired me to achieve this goal. And above all to God almighty.

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I would like to thank God almighty for bringing me this far and provided me with the strength and endurance, knowledge and vitality that has helped me to finally come up with this thesis project and made it a reality. I also would wish to thank my family for their moral financial support and encouragement and finally their understanding when I was not there for them during this demanding period I was robustly involved with coming up with this thesis project. I wouldn't have made this far without them.

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## **ACROYMNS & ABBREVIATIONS**

|              |   |
|--------------|---|
| <b>ANOVA</b> | Analysis of Variable                    |
| <b>CBK</b>   | Central Bank of Kenya                   |
| <b>EO</b>    | Entrepreneurial Orientation             |
| <b>RBV</b>   | Resource Based View                     |
| <b>ROI</b>   | Return on Investment                    |
| <b>SMEs</b>  | Small and Medium Enterprises            |
| <b>SPSS</b>  | Statistical Package for Social Sciences |

## ABSTRACT

In this twenty-first century where business organizations compete globally, there is a need for them to behave entrepreneurially in order to flourish and have a competitive advantage over competitors in the ever-dynamic and highly competitive business environments. The ongoing globalization, increased competition, innovation and technological changes are challenging organizations to look for the means of survival and growth. Firms are likely to benefit from pursuing and adopting Entrepreneurial Orientation, which forms the basis of this study. This study sought to examine the entrepreneurial orientation of banks based in Nairobi where a 5.4% increase in the new jobs created in 2015 was recorded. The main objective of this study was to examine the effect of entrepreneurial orientation on performance of commercial banks in Kenya. Specific Objectives were; to investigate levels of Entrepreneurial orientation amongst commercial banks in Kenya, to establish levels of performance of commercial banks in Kenya and to analyze the relationship between entrepreneurial orientation and performance of commercial banks in Kenya. A descriptive research design was used in this study. The target population comprised of all the 42 commercial banks operating in Kenya. Data was analyzed based on Pearson correlation analysis and a multiple regression model conducted on statistical package for social science (SPSS). The research findings indicated that there was a weak positive relationship ( $R= 0.332$ ) between the variables. The study also revealed that 11.0% of entrepreneurial orientation of the banks licensed at the Central Bank of Kenya can be explained by the independent variables. As a recommendation, the evolving world of today, due to growing environmental uncertainty, constant changes and numerous challenges, one of the effective strategies for the organizations to be able to adapt to rapid evolutions and to survive dynamically is entrepreneurial orientation and becoming an entrepreneurial organization. Similar studies to this can also be replicated in a few years to come to assess the effect of entrepreneurial orientation on performance at other financial sectors like the insurance companies Central Bank of Kenya. Also the effect of entrepreneurial orientation on corporate strategy is also another area of interest which can be under the area of further research and a more intense study along that area can come in handy. There should be use of marketing researches to identify the needs and wants of potential customers, competitors' strengths and weaknesses in new market segments and optimizing service delivery activities in order to develop aggressive competition and enter new markets.



# CHAPTER ONE

## INTRODUCTION

### 1.1 Background

In the evolving world of today, due to growing environmental uncertainty, constant changes and numerous challenges, one of the effective strategies for the organizations to be able to adapt to rapid evolutions and to survive dynamically is entrepreneurial orientation and becoming an entrepreneurial organization (Nyangau, 2016). The continued growth and existence of business units is attributed to entrepreneurial activities; it has also been identified as the key distinguishing factor that leads to business success. Scholars in the field have identified corporate entrepreneurial behavior as needed to increase in profits, market share, innovation, loyalty of customers thus gaining an edge in the market competition (Hornsby, 2014).

Creativity and innovative behaviors have been heralded as leading to growth and success of business organizations. According to Barney (2011), EO is a great value to any organization, as viewed through the resource based view theory angle. The ongoing globalization, increased competition, innovation and technological changes are challenging organizations to look for the means of survival and growth. There are high chances of business nits benefitting a lot through their pursuit of EO, (Wiklund & Shepherd, 2005), which forms the basis of this study.

Entrepreneurial Orientation (EO) refers to the process in strategy making which allow organizations to make decisions and actions that lead to higher returns (Lumpkin & Dess, 1996; Wiklund & Shepherd, 2003; Rauch, 2009). The relationship between the different dimensions of entrepreneurial orientation and performance vary independently (Lumpkin & Dess, 2005), therefore this study looks into each of the dimensions of EO and its relation to growth.

Entrepreneurial efforts are located at the middle level management (Floyd & Wooldridge, (1997); Hornsby, Kuratko, Shepherd, & Butt, (2008) that has responsibilities that requires knowledge and expertise to seek out, select and pursue viable entrepreneurial opportunities leading to increased growth.

This study adapts the definition of EO as the entrepreneurial process that reflects the methods, practices and decision making styles managers use to act entrepreneurially (Lumpkin & Dess, 1996). Banking is a developmental intervention that is becoming a global financial movement with a trend towards commercialization. The Economist (2013) confirms the progressive improvement of the global business environment for banking. Improvements have been recorded in the utilization of financial agents and mobile banking where Kenya is recognized as the world leader and pioneer of mobile banking services, Awang et al., (2009). In order to create a synergy between effects of entrepreneurial orientation on performance of commercial banks in Kenya, this study will be anchored on the theoretical establishment of Schumpeter's Innovation Theory and Entrepreneurial Orientation Theory.

### **1.1.1 Entrepreneurial Orientation**

Business competition is longer a local or even regional thing but has shifted and now it is global, hence the need for market leaders to behave in such a manner that would lead to them gaining competitiveness (Kuratko, Morris, & Covin, 2011; Kuratko, 2009). The market places for business units have become unpredictable, hostile and heterogenic and such an environment possesses questions to sustainability of the business unit. With the advancement and development of technological apps and systems in this ICT world, the scope for competition is even thinner and more refined (Ligthelm, 2010). Hence, according to Kuratko (2009) to fit and outwit competition, entrepreneurial innovation is compulsory and indeed the on way to survive. If any business organization cannot adjust to the market changes, they will be outmoded, render obsolete and pushed away from the market (Kuratko et al., 2004).

In the end, pioneering includes identifying market opportunities and gaining its benefits before competitors. This action requires acquiring, disseminating and responding to information which are in short the same as market orientation activities. The claim that entrepreneurship precedes market orientation has also been confirmed by many researchers, so as it is suggested that pursuing marketing strategy is supported when management accepts (Benito et al, 2009).

Entrepreneurial orientation is a key strategy in marketing, and has attracted many theoretical and practical attentions. Entrepreneurial orientation includes competitive advantages and can be an important indicator to measure performance. Hence, researches on the effects and importance of

market orientation have increased recently (Oyeniya, 2013). Objective evidence for EO and Performance are seen as these two factors are interdependent. In their research in 2012, Jyoti and Sharma evaluated the effect of market orientation on performance in an Indian province. Research data was collected from senior managers, employees and customers of various automobile exhibitions.

The relationship between entrepreneurship and market orientation has been both theoretically and practically tested during the past two decades. According to these studies, entrepreneurship and market orientation are complementary. Thus, to achieve innovative activities objectives in the market and to achieve success, entrepreneurship needs market orientation. In addition, to be responsive and react quickly to market opportunities, market orientation needs entrepreneurship. Morris et al. mentioned the idea of combining entrepreneurial thinking and market orientation, and refer to the mass entrepreneurial marketing. Some authors also believe that entrepreneurship is an introduction and a source of market orientation.

### **1.1.2 Performance**

Elly (2012) noted that performance measures play a very key role in translating organizational strategy in to desired results. Firms are in business to succeed in a dynamic business environment where the success is measured by efficiency and effectiveness, operationalized using economic value added, Accounting based performance measures and market based measures. Elly, (2012) further observed that there should also be a consideration of the compensation setting process that depends on firm's structure, its leadership, internal staff and presence in the market place and how that directly affects performance of a company.

Many mistakenly believe that performance means the profitability of the organization. In fact, performance is examined and evaluated specifically to the type of business organization, philosophies adopted, management thinking, organizational mission and the prevailing environmental conditions and other numerous factors. Thus, several indicators and criteria are used for this purpose. In studies related to the business performance, researchers have used various components for its measurement (Kafashpur & Siahroodi, 2009), because there is no agreement among them on the choice of performance criterion (Dowlatabadi & Elahi, 2006).

Accordingly, business performance consists of three components which include; market performance, customer performance and financial performance.

In customer performance, the emphasis is on loyalty as a result of customer satisfaction, while in market performance, the emphasis is on sales volume, sales growth and market share. In financial performance, profit, profit margin and ROI are emphasized. Marketing researchers have frequently used the above criteria. Several studies have also indicated their reliability and validity (Idar & Mahmood, 2011). Similarly, in this study, the three criteria, i.e. market performance, customer performance and financial performance are used to measure the performance of banks. The concept of entrepreneurial orientation regardless of its type and size has always been important, and over a hundred researches have been conducted on the subject. The results of these studies have widely proved the impact of entrepreneurial orientation on performance improvement (Dada & Watson, 2013). In a multivariate analysis of 51 articles in 2009, Rauch et al, (2009) showed that in general, there is a relatively large positive correlation between entrepreneurial orientation and firm performance considering the amount of growth and profitability (Mousa & Wales, 2012).

### **1.1.3 Entrepreneurial Orientation and Performance**

The ongoing globalization, increased competition, innovation and technological changes are challenging organizations to look for the means of survival and growth; and the most notable solution that has been given by experts is pursuit of entrepreneurial orientation (Rauch 2009). The relationship between the different dimensions of entrepreneurial orientation and performance vary independently (Lumpkin & Dess, 2005), therefore this study looked into each of the dimensions of EO and its relation to growth.

Entrepreneurial efforts are located at the middle level management (Floyd & Wooldridge, 1997); (Hornsby, Kuratko, Shepherd, & Butt, 2008) that has responsibilities that requires knowledge and expertise to seek out, select and pursue viable entrepreneurial opportunities leading to increased growth.

### **1.1.4 Commercial Banks in Kenya**

Commercial banking in Kenya started in the 19<sup>th</sup> century and was commenced with the connections to East Africa during the colonial era. Fast forward to 2000s, where the Central

Bank of Kenya (CBK) introduced Kenya Banks Reference Rate (KBRR) and Credit Reference Bureau (CRB) to increase transparency in pricing of credit products by financial institutions including commercial banks and microfinance; it was also developed to encourage sharing information on either positive or negative reference for a borrower, this was just to reduce credit risks and is a step towards progress. The amended Act mandated the banks to participate in the credit information sharing (CIS) initiative and streamline the rights and obligations of all parties involved in the CIS mechanism (CBK, 2014). These regulatory measures are beneficial in the long run in supporting a healthy expansion of a vibrant banking industry in Kenya. Their implementation calls for more transparency, accountability and professional approach in their operations without compromising their social mission.

It is documented by the Banking Bulletin (2013) an estimated 4 billion people in the world live on US\$2 and below. This study sought to establish the effect of entrepreneurial orientation dimensions on the growth of microfinance institutions which are considered capable of addressing poverty alleviation and make a contribution towards social development and eventually advance the current social development goals. It examined the EO from the managerial perspective in order to provide a rich understanding of their tasks in the entrepreneurial process (Lumpkin & Dess, 2005). Managers play an important role in the growth of institutions where they are allowed freedom and independence to pursue entrepreneurial opportunities for the benefit of the firms.

The introduction of Kenya Banks Reference Rate (KBRR) and the introduction of the Credit Reference Bureau regulations in 2014 on sharing of borrowers credit history is a step owards progress in financing. The amended Act mandated the banks to participate in the credit information sharing (CIS) initiative and streamline the rights and obligations of all parties involved in the CIS mechanism (CBK, 2014). These regulatory measures are beneficial in the long run in supporting a healthy expansion of a vibrant banking industry in Kenya. Their implementation calls for more transparency, accountability and professional approach in their operations without compromising their social mission.

## **1.2 Research Problem**

The ongoing globalization, increased competition, innovation and technological changes are challenging organizations to look for the means of survival and growth. According to Wiklund

and Shepherd (2005) adoption of EO will benefit organizations and this forms the basis for this study.

Most of the entrepreneurial ideas come internally from the organizational employees, this makes selecting and recruitment crucial in getting staff who behave entrepreneurially and work as a team at the workplace to realize the organizational goals (Ireland, Kuratko, & Morris, 2006). It is then important to have a high orientation team among the staff to drive the entrepreneurial orientation agenda which will positively impact on performance of the organization. According to Ledgerwood and White (2006), the banking industry has had an impressive growth but still it reaches a small percentage of its potential market worldwide. Many banks do not reach their 3<sup>rd</sup> year of operations before they collapse (GoK, 2005). This study sought to examine the entrepreneurial orientation of banks based in Nairobi where a 5.4% increase in the new jobs created in 2015 were recorded (GoK, 2014). The aim is to establish the EO strategies being adopted in order to take advantage of the broad potential market in a sustainable manner; through examining the top management of firms (Covin & Slevin, 1989), in small firms the owner-manager who leads the firm greatly influences its culture and entrepreneurial behavior. There is need therefore to examine how small firms adopt and implement EO in relation to their performance as this may differ from the ways EO is implemented in large firms.

Entrepreneurial activity in Kenya is considered as a significant way to address the prevalent high levels of poverty and unemployment. The banking sector is regarded as the driving force to spur economic growth, innovation and creation of jobs. In tandem with the rest of the world, Kenya is experiencing transformative shifts including the change in population demographics, advancement in technology and fluctuating market economies and other market forces.

In today's business environment, where the life cycle of products and services are shortening and the future benefits are uncertain, risk-taking, innovation and aggressiveness in market are very important for entrepreneurial institutions (Dess& Lumpkin, 2005).

The necessity of entrepreneurial orientation strategy has resulted from three basic requirements; i.e. the growth in the number of new competitors, the feeling of distrust of the traditional management practices and the best work forces leaving to initiate an independent entrepreneurial activity. Meanwhile, the development of information and communication technologies has

substantially increased (Abaszadeh et al, 201).In recent years, the increasing number of banks and financial institutions, doubled with privatization of some public banks, has created an atmosphere of intense competition in the banking industry in Kenya. Some of these services have arisen from innovativeness and proactiveness, and some others have emanated from risk-taking, autonomy and aggressiveness.

Findings from government reports on the state of affairs of banks reveal that the sector faces numerous problems and constrains that affect their growth (RoK, 2005). Recent studies by Nyangau (2016), focused on entrepreneurial leadership in micro and small enterprises; Kiiru (2015) studied the Dynamic capabilities, strategic orientation and competitive advantage of small and medium enterprises; Njeru (2014), focused on the effect of entrepreneurial mindset on the performance of manufacturing businesses in Nairobi. Although much research has been done on different dimensions of EO in large and SMEs, few studies have focused on banks and the utilization of EO dimensions in the sector.

To resolve the problems and challenges of the banking system, creating the proper context to increase entrepreneurial orientation can be an effective model to achieve innovation, initiative, developing new products and work processes, and ultimately, improving service quality and thus improving the performance of banks in all aspects. Hence, in current volatile and competitive environment, both entrepreneurial orientation and market orientation are essential to the success of organizations. Does entrepreneurial orientation affect the performance of commercial banks in Kenya?

### **1.3 Objective of the Study**

The main study objective is to examine the effect of entrepreneurial orientation on performance of commercial banks in Kenya.

#### **Specific Objectives**

- (i) To investigate forms of Entrepreneurial orientation amongst commercial banks in Kenya
- (ii) To establish levels of performance of commercial banks in Kenya

- (iii) To analyze the relationship between entrepreneurial orientation and performance of commercial banks in Kenya.

#### **1.4 Value of the Study**

These study findings shall be of great value to stakeholders within the economy. They shall utilize the findings of the study for the betterment of their day to day business activities thus increasing their performance.

The findings shall also be beneficial to other firms, to restructure their entrepreneurial orientation mix for performance measurement. The concept requires new strategic alternatives for financial companies. Which will in turn be used to increase both financial and non-financial benefits to their businesses

The study will also contribute to the performance of commercial banks in terms of realizing the entrepreneurial gaps existing in the market and taking advantage in order to acquire competitive advantage. Banks need more flexible and faster organizational structures for them to be able to respond effectively to the growing needs of customers.



## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter provides the literature review of the study and establishes the gap existing from the analyses of the available studies. The areas covered in this chapter include; theories used, empirical evidence, conceptual framework and summary of literature review.

#### **2.2 Theoretical Review**

In order to create a synergy between effects of entrepreneurial orientation on performance of commercial banks in Kenya, this study will be anchored on the theoretical establishment of Schumpeter's Innovation Theory and Entrepreneurial Orientation Theory.

##### **2.2.1 Schumpeter's Innovation Theory**

Schumpeter (1934; 1942) pioneered in highlighting the role of innovation in the entrepreneurial process. Accordingly, Schumpeter (1942) calls innovation the specific tool of entrepreneurs, the means by which entrepreneurs exploit change as an opportunity for a different business or a different service. Schumpeter (1942) stressed the role of entrepreneurs as primary agents effecting creative destruction, and emphasized to the entrepreneurs the need to search purposefully for the sources of innovation, the changes and their symptoms that indicate opportunities for successful innovation; as well as their need to know and to apply the principles of successful innovation.

This Schumpeterian vein of thinking has been carried forward by successive scholars and researchers (Drucker 1985; Lumpkin & Dess, 1996; Shane, Corner & Westhead, 1991). On his part, Drucker (1985) held out the entrepreneur always searching for change, responding to it, and exploiting it as an opportunity, and engaging by this means in purposeful innovation.

Schumpeterian growth theory notes that innovations lead to technological progress, which further lead to higher profits for the organization (Schumpeter, 1934). On the other hand, Osaze (2003), views pro-activity like one is defining their goals and their future and how it will shape up. Entrepreneurial pro-activeness is predicting the future and implementing these changes to

come up as leaders in the business world (Alvarez & Barney, 2002). For economic growth, innovation is a compulsory aspect in entrepreneurship, success according to Ling et al. (2008) can only be achieved through innovation. The study therefore realizes the importance of innovation in entrepreneurial performance of commercial banks.

### **2.2.2 Rational Choice Theories**

These theories are applicable when explaining the implementation of the EO dimensions where scarcity of resources is a key factor that management considers in the attempt to balance between social mission and profitability. The key reason why a number of MFIs have made the decision to transform into regulated deposit taking financial intermediaries is based on rational thinking in order to make the organizations sustainable. Ledgerwood (2006) posits that the objective is to offer additional products and services to the clients and reach more of the unreached through microfinance even though in the short run the transformation exercise is expensive. This has an implication on the overall impact as higher financial inclusion has been found to be significantly correlated with lower poverty and income inequality. Park & Mercado (2015) found that state led expansion of rural bank branches in India helped reduce poverty.

Friedman and Hetcher (1990) explain two ideas basic to rational choice theory. Aggressive mechanism that predict social outcome and the value information is given while making rational choices. Theories of rational choice are based on the assumption that individuals are purposive, responsible and rational actors (Coleman, 1990). Choice is a dynamic process, some choices take time and the conditions governing them change (Hardin, 1988). This theory sees people as motivated ones when there is a reward to their actions that will lead to profits (Ritzer, 1990). The choice that MFIs management boards and owners face is that of creating a meaningful balance between profitability and financial inclusivity.

### **2.2.3 Entrepreneurial Orientation Theory**

Entrepreneurial theories relate to the individual or the enterprise (Callaghan, 2009). At the individual level of entrepreneurship, the origins of definitions of entrepreneurship go back to Circa (1700). The entrepreneur is also seen as an economic actor having a driving force for economic development (Schumpeter, 1934; Kirzner, 1997). McClelland's (1961) theory relates to entrepreneurs as having a higher need for achievement (Callaghan, 2009). Callaghan (2009)

adds to the Schumpeterian spectrum of EO, two dimensions; Learning and Achievement orientations.

The individual level theoretical basis of entrepreneurship has not been without criticism. For instance, Shapero and Sokol (1982) criticize individual centered perspectives of entrepreneurship and argue against McClelland's (1961) need-for-achievement theory on the deficiency of the theoretical process resulting in what they call "an oversimplification of the subject". As well, Shane (1996) argues that the "trait" approach, whereby an individual's distinguishing characteristics, including personality characteristics, are related to entrepreneurial variables, is often studied according to a flawed approach. However, Mappiagu and Agussalim (2013) report that a number of research studies have argued the need for small firm entrepreneurs to develop entrepreneurial and managerial competencies as proper allocation of these two roles crucially underpin small firm survival (e.g., Inyang & Enuoh, 2009; Silinevica, 2011; Peljhan, 2012).

At the firm level, Callaghan (2009) notes that the EO was made to differentiate between managers and owners of enterprises and it can be traced back to Mintzberg (1973). One of the strategy – making modes put forth by Mintzberg (1973) is the entrepreneurial one which is based on active search for entrepreneurial opportunities and growth. The other modes include planning, generation of alternate and selection of appropriate strategies; and the adaptive mode which focuses on reactive solutions than proactive search for new opportunities. Support for the entrepreneurial mode is given by Khandwalla (1976/1977) as it being bold and risky approach to the decision making process. On their part, Covin and Slevin (1989) contrast firms operating in hostile competitive environments, characterized by intense rivalry among firms with firms that operate in more benign competitive settings and reported that the former tended to adopt innovations with greater frequency than the latter. Miller (1983) used the dimensions of innovativeness, risk taking and pro-activeness to characterize and test entrepreneurial orientation, while Lumpkin & Dess (1996) expanded the numbers of dimensions to include competitive aggressiveness and autonomy. This theory supports this study by anchoring entrepreneurial mode to entrepreneurial management consisting of the bold and risky decision-making procedures.

### **2.3 Determinants of Performance**

To be an entrepreneur one must be accustomed to risk taking (Sekran, 2010). Throughout history, entrepreneurs have had to venture and drive their actions to promote entrepreneurial

activities. This has also seen to the rise of opportunities that reinforce industrial networks and for the case of small business units, the owner who at times is also the manager considers his/her personal networks to boost entrepreneurial industry; this is a particularly honest opinion of start-ups, in their initial stages. Burgelman (2006) noted that most of the entrepreneurs use their own personal network who will most likely include trusted family members, colleagues, customers who are neighbors, the local politicians and suppliers of the banks. These networks enable them to gain valuable information that would eventually lead to their success in their business venture and sharing of the limited resources. Some of the determinants of EO include;

### **2.3.1 Product innovativeness**

Product innovativeness is a key factor to production accomplishment which sequentially is extremely linked to sustainable of the success in business (Henard & Szymanski, 2001). Innovative products open doors to boundless opportunities for businesses with regard to growth and expansion into different markets. Companies with important innovations will be in a better position to establish dominance in the market and for new entrants (Danneels & Kleinschmidt, 2001)

Henard and Szymanski (2001) argued that effective product innovativeness could be majorly due to perceived product newness, freshness, originality, novelty or uniqueness from either customers' perspective where features like deviation from normal, risk adoption, and degree of change in traditional behavioral patterns in the company considered as forms of product newness or the organization's perspective where environmental awareness, the project-firm fit and technological and marketing facets are observed as attributes of product innovativeness.

### **2.3.2 Process innovativeness**

Process innovativeness covers the introduction of new management methodologies, new production methods and new technology that improve on production and management practices. It helps the company to exploit their resources and competences and capabilities, thereby improving the company's capability to reconfigure and recombine its resources and capabilities in order for it to meet the requirement of creative production are critical to organizational success. Kitchell (1997) concludes that process innovativeness is a sub-element of

technological innovativeness and that technological innovativeness is preeminently looked at in light of the nature and process of innovation implementation.

### **2.3.3 Behavioral innovativeness**

Behavioral innovativeness is categorized into individual, team and managerial innovativeness. Individual innovativeness is reflected as a personality concept which is inferred as a readiness to transformation (Hurt, Joseph & Cook, 1977). Team innovativeness attribute is the team's adaptableness to transformation and is synergy based on group dynamics and not a sum of individual innovativeness (Lovelace, Shapiro & Weingart, 2001). Managerial innovativeness according to Rainey (1999) refers to top management's willingness and disposition to transformation, obligation and commitment to inspire new techniques of doing things and nurture new ideas. Behavioral innovativeness facilitates the development of innovative culture, the company internal openness to new ideas and innovation. The behavioral element should mirror the persistent behavioral change of the whole organization towards innovations and not the intermittent innovation events or innovative appearances of some small groups in the organization.

Strategic innovation leads to competitiveness that create value to firms (Besanko, Dranove & Shanley, 1996). It is the re-conceptualization of the business model which leads to a radically different way of competing in an existing business. It measures the organization's capability to manage its objectives and identify gaps in its industry positioning and existing resources to enable the company leverage limited resources productively.

## **2.4 Empirical Review**

The study by Fatoki (2014) investigated the entrepreneurial orientation of micro enterprises in the retail sector in South Africa and the results revealed adeptness by micro enterprises in their quest to bring in new product lines that will make a change in their product line, but weakness in research and development, pro-activeness and risk-taking. Ngugi (2013), conducted a study on influence of intellectual capital on the growth of small and medium enterprises in Kenya. The findings of the study revealed that the components of Intellectual Capital such as managerial

skills, entrepreneurial skills, and innovativeness of the owner/managers have major positive significance contribution to the SME growth.

The study by Ligthelm (2010) primarily aimed at calculating the rate of survival for the small business units in a highly fluctuating business environment using longitudinal surveys, while concentrating on entrepreneurship role in small business survival. The two research questions of the study were the ability of small informal businesses to survive amidst a heightened level of competition from large formal businesses and the variables instrumental in ensuring sustainability of survivors. The findings from 300 small businesses based in Soweto for a period of 2 years 2007 to 2009; the results showed that the survival of small businesses is dependent on entrepreneurial acumen and management skills (Ligthelm, 2010).

Dess and Lumpki (2005) concluded by stating the any business unit, anywhere in the world faces three major type of risks; business, financial and personal risk. Business risks are encountered when a business unit ventures into market places that have not been tested or using unproved technologies. Financial risks are associated with heavy borrowing and the firms with EO engage in high leveraging and large resources committed to avenues that bring in higher profitability. And personal risks are linked to the decisions made by executives in an organization that may result in achievement of strategic plans or failure of them (Dess & Lumpkin, 2005). All actions in entrepreneurship are linked to risks that must be calculated and moderated. In EO the risks are not uncontrollable but they are unknown (Dess & Lumpkin, 2005). There study examines MFIs from a similar perspective where managers are viewed as proactive in a financial market experiencing tremendous growth. In knowledgeable economies organizations depend on their staff to be proactive so as to encourage innovation, creativity and changes. To facilitate this proactive behavior the management plays a key role in creating an environment that allowed creativity and innovation. This study observed that pro-activeness involved some degree of future planning and initiative taking in implementing business processes that cultivates new markets. Proactive behavior is evident by implementing ideas and solving problems and building social networks for the benefit of the firm.

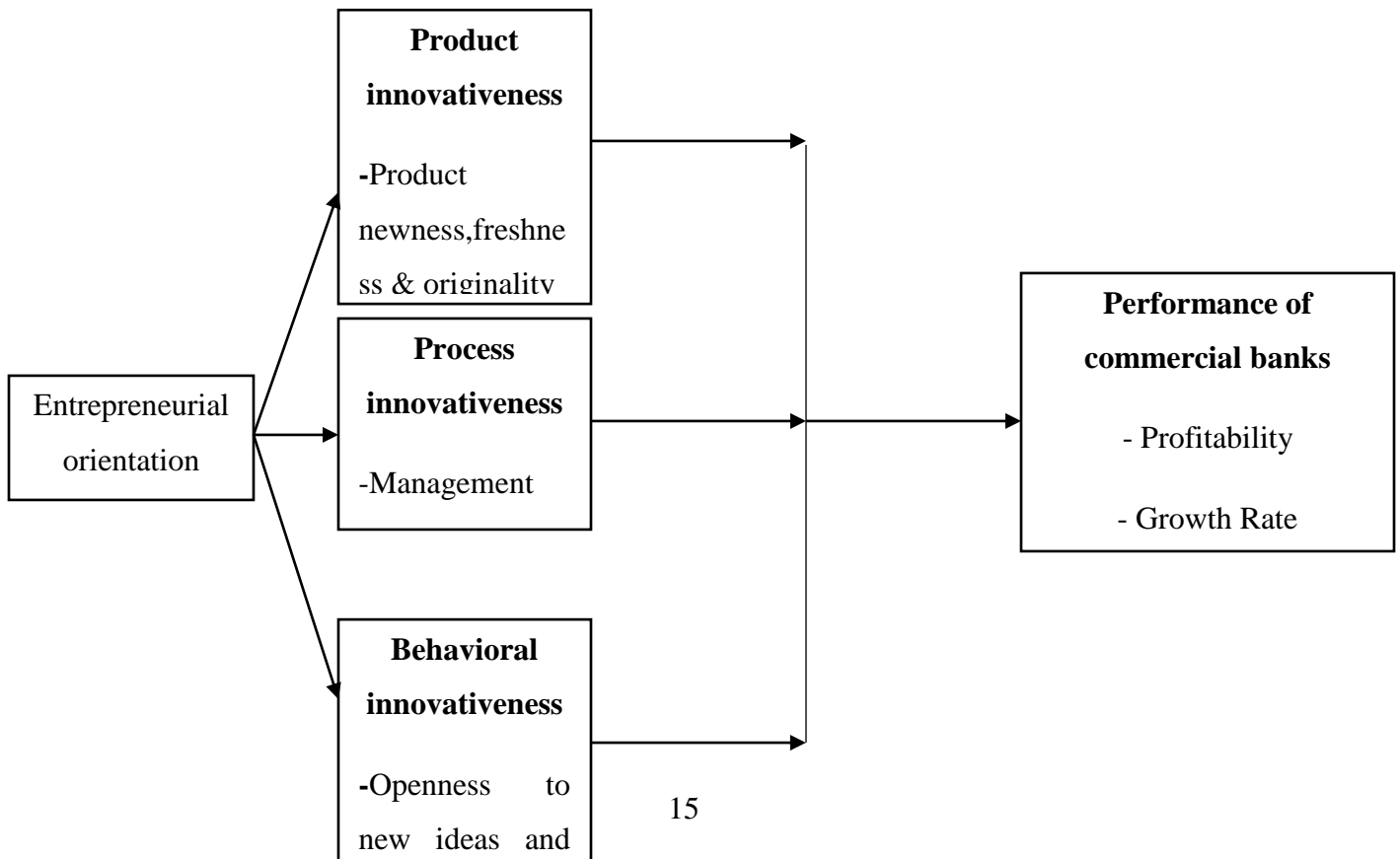
In a study conducted in 2010 by Frank et al. in the electronics industry of Australia, it was found that the entrepreneurial orientation with an emphasis on its three main elements (i.e. risk-taking, innovation and pro-activeness) have a positive relationship with how the performance of

business is. The assessment of SMEs North East China in 2012 indicated that entrepreneurial orientation has a positive impact on SMEs business performance (Zhang & Zhang, 2012). The evidence suggests that being entrepreneurial leads to better performance in organizations.

In addition, Hughes & Morgan (2007) have argued that studies related to entrepreneurship have failed to analyze the importance of entrepreneurial orientation dimensions in explaining the performance. Given the institutions' situations, dimensions of entrepreneurial orientation may lead to desired results in a particular dimension of performance, and lead to poor performance in other dimensions. Nevertheless, the relationship between dimensions of entrepreneurial orientation and performance (financial or non-financial) in a variety of organizations and companies, including universities (Fox, 2005), emerging companies in incubators (Hughes & Morgan, 2007), small businesses (Runyan et al, 2008), manufacturing firms (Slotwinski, 2010), commercial firms (Goodale et al, 2010) and banks (Razavi et al, 1390) has been confirmed (Razavi et al 2011).

## 2.5 Conceptual Framework

Figure 2. 1: Conceptual Framework



## 2.6 Summary of Literature Review

Literature review revealed that EO performance in Kenya has been studied by several researchers though not on banks. Most of EO studies have been conducted in development nations like Hansen, 2011 and Kreiser et al. (2009). Globalization and technological development has facilitated the reduction in transaction costs in service delivery. MFIs are well placed to harness the power of technology to reach and serve the poor wherever they may be found (MF bulletin, 2013). New technologies especially in money transfer such as the Mpesa have opened up new opportunities of reaching clients with ease and reducing their transactional costs. A study on effect of EO on banks reveals the need to explore new and better ways of reaching their clients.

The existing literature reviewed shows a positive relationship between EO and performance measured in terms of profit indices, customer growth and market share growth and the overall general performance. And again positive relationship is linked in terms of teamwork and other variables including motivation, leadership, empowerment and productivity.

| <b>Author of study</b> | <b>Focus of Study</b>   | <b>Methodology</b> | <b>Findings</b>   | <b>Knowledge Gaps</b>                     | <b>Focus of current study</b>                                  |
|------------------------|---|--------------------|---|---|--|
| Nyangau (2016),        | Entrepreneurial leadership in micro and small enterprises                           | Case study         | Entrepreneurial leadership largely affect micro and small enterprises         | Study was on SMEs not on banks            | Entrepreneurial orientation on performance of commercial banks |
| Njeru (2014),          | Effect of entrepreneurial mindset on the performance of manufacturing businesses in | Cross sectional    | Entrepreneurial mindset has a high impact on the performance of manufacturing | The study dealt with manufacturing sector | Entrepreneurial orientation on performance of commercial banks |



|                  |   |          |  |   |  |
|------------------|---|----------|--|---|--|
|                  | Nairobi   |          | businesses in<br>Nairobi   |   |  |
| Okeyo<br>(2014)  | EO impact on<br>SMEs<br>performance                           | Survey   | EO impact on<br>SMEs<br>performance  | This survey<br>was on overall<br>impact of EO<br>on SMEs not<br>banks | Entrepreneurial<br>orientation on<br>performance of<br>commercial<br>banks |
| Otieno<br>(2012) | Influence of<br>EO among<br>Kenya's<br>manufacturing<br>firms | Sectoral | Findings show a<br>high level of<br>influence of EO<br>among Kenya's<br>manufacturing<br>firms |   | Entrepreneurial<br>orientation on<br>performance of<br>commercial<br>banks |

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter looked at the technique that the researcher used to accomplish the established research objectives. These main areas covered the population and sampling to get the sample size; the data collection process and instruments and data analysis to get findings and inferences. The study has one objective that it seeks to assess the entrepreneurial orientation (innovativeness and aggressive competition) on performance of commercial banks.

#### **3.2 Research Design**

It includes the blueprint in the process of data collection and analysis (Kothari, 2005). Descriptive research design was adopted for the study. According to Orodho (2003) descriptive survey is ideal in collecting data using interviews or questionnaires as instruments; it is also valid when asking questions on attitudes, opinions, perception, habits and other social issues (Orodho & Kombo, 2003).

This is ideal in collecting data using questionnaire as an instrument and Sekaran (2003) asserts that the design is ideal for collecting data which is sufficient for hypothesis testing and Gerson and Horowitz(2002) note that descriptive research design in data that describes people and phenomenon; such as our case in trying to understand the impact of EO on organizational performance..

#### **3.3 Population**

The population is a group of people or its elements in its entirety, it is normally large and broken down to create the sample size for the study (Orodho & Kombo, 2003). They are elements or people with information that can respond to the research questions. The target population comprises of all commercial banks licensed in CBK. There are 42 commercial banks in Kenya. (See appendix ii)

### **3.4 Data Collection**

Both primary and secondary were collected in relation to entrepreneurial orientation on performance of commercial banks for the period (2006-2016). Secondary data of published financial reports on this period was used. Secondary is one already available since it had already collected by someone else for their usage. Polit and Beck (2003) state that secondary data had already been gathered in previous studies and were used to test new hypotheses and explore new relationships. The data for this study relate to a duration of ten years from 2006-2016.

### **3.5 Diagnostic Tests**

Diagnostic tests are done to determine and maintain a transparent process in analysis and find relevant findings. It involves having a well-developed question and clear development of instruments. The question must be well planned to give accurate findings.

#### **3.5.1 Validity**

Validity is concerned with how accurate data obtained in the study represents the variables of the study (Saunders et al, 2009). A valid data collection instrument, the questions must be relevant such that the findings will fill knowledge gap and answer the research questions. Before the actual study, the questionnaire was discussed by the supervisor to ensure meaningful data will be collected that inferences can be made from.

#### **3.5.2 Reliability**

Reliability refers to consistency of results of time periods and an accurate representation of the total study population. According to Orodho (2003) an instrument is reliable, if it can produce similar results in similar circumstances.

Any errors reduce the accuracy and consistency of the instrument (Cooper & Schinder, 2001). And it is the responsibility of the researcher to assure of the accuracy and consistency of the test scores (Klein & Ford, 2003). For reliability testing, Cronbach alpha was applied to check for internal consistency,

### 3.6 Data Analysis

The study data was analyzed using correlation (Pearson) and multiple regression model adopting the use of SPSS. The available data was coded and entered into SPSS for further analysis; where summaries were developed into both qualitative and quantitative.

Descriptive analysis was adopted; which include frequencies, percentages and ANOVA. Frequency distribution tables and charts were used for data presentation. A final report was provided of the summary of findings and conclusions drawn from, after the requisite analysis and interpretation.

The study used multiple regression model at 5% assurance to check for association of then variables.

#### 3.6.1 Analytical Model

In this case, the regression equation was expressed as  $Y = \beta_0 + \beta_1 X_1 + e \dots \dots \dots (i)$

Where:

Y= Performance of Commercial Banks

$\beta_0$  = coefficient of intercept

$X_1$ = Entrepreneurial orientation

$\epsilon$  =error term

$\beta_1 \dots \beta_4$  = Coefficients

$\epsilon$  =error term

#### 3.6.2 Operationalization of Conceptual Framework

**Table 3. 1: Operationalization of Conceptual Framework**

| Type of Variable | Name of Variable            | Operationalization   | Measurement                             |
|------------------|-----------------------------|--|---|
| Dependent        | Performance                 | Profitability and Growth   | Growth in turnover and growth in profit |
| Independent      | Entrepreneurial orientation | <ul style="list-style-type: none"> <li>➤ Product innovativeness</li> <li>➤ Process innovativeness</li> </ul> | Product newness, freshness, originality |

➤ Behavioral  
innovativeness

Management methodologies

Openness to new ideas and  
innovation

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## **CHAPTERFOUR**

### **DATAANALYSIS, FINDINGS AND DISCUSSIONS**

#### **4.1 Introduction**

This section covers the findings and analysis that was obtained from the collected secondary data from Central Bank of Kenya and the commercial banks books of accounts. Out of the 42 commercial banks that are regulated and operate under the Central Bank of Kenya, the researcher was able to get published books of accounts of 40 commercial banks representing a response rate of 95.2% which is satisfactory for analysis.

#### **4.2 Validity and Reliability Test**

Reliability is the measure for yielding consistent results repeatedly (Mugenda & Mugenda, 2003). Cronbach's alpha was applied to determine the internal consistency and reliability of the questionnaire used in this study. The reliability index acceptable is between 0.7 and above according to Mugenda and Mugenda, (2003). In case where it was discovered that the items in the questionnaire was deficient for the respondents, they were rectified accordingly. In cases where the questions are vague, they were well interpreted and rephrased.

Cronbach's alpha was calculated through application of the analysis using SPSS; values from 0-1 represent the reliability of factors from the questionnaire scales, the higher the value, the more reliable the generated scale, According to Cooper and Schindler (2006) a reliability below 0.4 is

unreliable, 0.4-0.5 as poor, 0.5-0.6 as acceptable, 0.6-0.7 as good, 0.7- 0.8 as very Good and above 0.8 as excellent. According to Table 4.1 the reliability test at 0.814 was excellent

**Table 4.1: Reliability Statistics**

|                         |                       | <b>N</b>          | <b>%</b> |
|-------------------------|-----------------------|-------------------|----------|
| Cases                   | Valid                 | 40                | 100.0    |
|                         | Excluded <sup>a</sup> | 0                 | .0       |
|                         | Total                 | 40                | 100.0    |
| <b>Cronbach's Alpha</b> |                       | <b>N of Items</b> |          |
| .814                    |                       | 19                |          |

a. List wise deletion based on all variables in the procedure

#### 4.2.1 Diagnostic Tests

**Table 4. 2: Diagnostic Tests**

| <b>Variable</b>  | <b>Coefficient</b> | <b>Standard Error</b> | <b>Z</b> | <b>P&gt;z</b> |
|--|--------------------|-----------------------|----------|---------------|
| Growth in turnover   | -0.000124***       | 0.000136              | -1.02    | 0.306         |
| growth in profit   | 0.2213**           | 0.0283824             | 4.14     | 0.000         |
| Product newness  | 0.174              | 0.0139033             | 2.41     | 0.016         |
| Product freshness  | 0.00123***         | 0.0029528             | 0.64     | 0.523         |
| Product originality  | 0.0047*            | 0.0015597             | 2.21     | 0.027         |
| Management methodologies   | 0.065              | 0.0185633             | 4.72     | 0.000         |
| Openness to new ideas  | 0.0037             | 0.0052275             | 0.70     | 0.482         |
| Openness to innovation   | 0.0048**           | 0.0021154             | 2.04     | 0.041         |
| Wald Chi Square(6)   | = 55.27            | Prob>chi2             | =        |               |
| 0.0000(*),(**)and(***) denote 1%, 5%, and 10%levels of significance respectively |                    |                       |          |               |

All the measurements were significant in predicting the independent variables.

#### 4.3 Descriptive Statistics

**Table 4. 3: Descriptive Statistics**

| <b>Variable</b>             | <b>Observation</b> | <b>Mean</b> | <b>Std.</b> | <b>Min</b> | <b>Max</b> |
|-----------------------------|--------------------|-------------|-------------|------------|------------|
| Product innovativeness      | 40                 | 0.12        | 0.3         | -1.62      | 3.17       |
| Process innovativeness      | 40                 | 5.54        | 56.3        | 0          | 817.36     |
| Behavioral innovativeness   | 40                 | 0.32        | 0.3         | 0          | 2.76       |
| Entrepreneurial orientation | 40                 | 4.58        | 1.8         | 1.52       | 6.9        |
| Performance of commercial   | 40                 | 0.49        | .7          | 0.01       | 9.62       |

Table 4.1 Shows that product innovativeness had a mean value of 0.12 for the 40 observable units, the standard deviation is 0.3 and the minimum and maximum of -1.615 and 3.173 respectively. The positive product innovativeness shows that these commercial banks on average are profitable, although some of them are operating at a loss as seen by the negative minimum value of product innovativeness. The mean value for banks performance was 0.49 while the standard deviation is of 0.7 and the minimum and maximum of 0.01 and 9.62 respectively as observed. The positive minimum value observation for banks performance implies that all commercial banks were operating at a profit.

From the analysis, process innovativeness had a mean of 5.5, as an indication that on the average, the licensed commercial banks in Kenya were highly innovative. And the greatest proportions of their success were from entrepreneurial orientation. The standard deviation was of a value of 56.3 implying a great variation in process innovation as noted by having a minimum value of 0 and maximum value of 817.4. These findings concur with the report of 2013, by the economic survey which revealed that the growth realized by the banking sector increased innovations in the private sector by 30.8% in 2011 and 11.8% in the year 2012. Increase in access to technology, may be the element that explains the high performance experienced by the banks.

The results shown on Table 4.1 on behavioral innovativeness showing that the mean value is 0.3 while the minimum value is 0 and maximum value is 2.8. This finding is an indication that the commercial banks used less behavioral innovativeness to improve on their performance. These results suggest that commercial banks followed a conservative behavioral innovativeness policy. The maximum value of 2.8 shows that those commercial banks that adopted an extremely aggressive behavioral innovativeness policy as a standard operating rule, gained growth of almost three times, than other commercial banks. The results put the mean value of performance 0.5 with

minimum values at 0.0002 and the maximum value of 9.62; these mean shows that in general then commercial banks were neither very aggressive nor excessively conservative while investing in entrepreneurial orientation practices. With a maximum of 9.62, the findings show that at the time of observation, these commercial banks were extremely conservative in their entrepreneurial orientation policy as they held very high levels of investment in entrepreneurial orientation.

Product innovativeness is a key precursor to the success of products which sequentially is extremely linked to a sustainable success in business (Henard & Szymanski, 2001). Products that are innovative in nature will open doors for boundless opportunities for business exploits with market growth and expansion in either the same market or in different markets across the globe. Companies with important innovations were in a better position to establish dominance in the market places that are high competitive and try to block new entrants so as to get opportunities for gaining on the market base (Danneels & Kleinschmidt, 2001).

Henard and Szymanski (2001) argued that effective product innovativeness could be majorly due to perceived product newness, freshness, originality, novelty or uniqueness either from the customers' viewpoint or the organizational viewpoint. From the customers' angle, product features including; innovative qualities, risk adoption, the changes from the traditional behavioral patterns while to the company, these forms as seen as the product newness. From the organizational point of view, awareness of the environmental changes, technological and market elements and fitness of the project firm through the observed attributes of product innovativeness.

Process innovativeness covers the introduction of new management methodologies, new production methods and new technologies that are used together to improve the product process and the newly adopted management practices. It helps the company to exploit their resources and competences and capabilities, thereby improving the company's capability to reconfigure and recombine its available resources to be creative and meet the organizational success (Kitchell, 1997).

Behavioral innovativeness is categorized into individual, team and managerial innovativeness. Individual innovativeness is reflected as a personality concept which is inferred as a readiness to transformation (Hurt, Joseph & Cook, 1977). Team innovativeness is the ability of the team to



adapt to transformation and is synergy based on group dynamics and not a sum of individual innovativeness (Lovelace, Shapiro & Weingart, 2001). Managerial innovativeness according to Rainey (1999) refers to top management's willingness and disposition to transformation, obligation and commitment to inspire new techniques for handling activities and nurture new ideas. Behavioral innovativeness facilitates the development of a culture bound in innovation, the company's willingness to open itself up to new ideas and innovative ways of operating. The behavioral element should mirror the persistent change in behavior towards a more innovative organization and not the intermittent innovation events or appearances of some minority groupings in the organization. An innovative culture functions as a promoter of product and process innovations in an organization.

On the other hand, innovation leads to competitiveness hence more returns to firms once they have been implemented (Besanko, Dranove & Shanley, 1996). It is the reconceptualization of the business model making a radically manner to competition for the business units. It measures the organization's capability to manage its objectives and identify gaps in its industry positioning and existing resources to enable the company leverage limited resources productively.

### 4.3.1 Performance

**Table 4. 4: Performance**

| Statement  | Mean | Stdev |
|--|------|-------|
| Business has experienced growth in turnover over the past few years.       | 2.73 | 0.924 |
| Business has experienced growth in profit over the past few years.         | 2.92 | 1.078 |
| Business has experienced growth in market share over the past few years.   | 3.44 | 1.165 |
| Competitive position of our business has improved over the past few years. | 3.21 | 1.146 |
| The effectiveness of our business has improved over the past few years.    | 3.49 | 0.805 |

**\*means of above 2.5 indicate a very strong significance of the statements to the statements. It means most respondents agreed with the statements. The insignificant deviations from the mean confirms the validity of the statements.**

On whether the effectiveness of our business has improved over the past few years, 8.8% of them strongly agreed with the statement, 42.2% of the respondents agreed, 10.8% disagreed while 38.2% of the respondents were undecided. The item realized with a mean of 3.49 and a standard deviation of 0.805, an indication that the management is willing and able to fully appreciate the.

In a bid to establish if the business has experienced growth in market share over the past few years. The findings show that 16.7% of the study respondents agreed on the fact that the bank keeps managers who bring new changes to the ban, 42.2% of them agreed, 6.9% of them strongly disagreed, 17.6% disagreed while 16.7% of the respondents were undecided. The results summed up by a mean of 3.44 and 1.165 for standard deviation.

In regards to whether the bank competitive position of our business has improved over the past few years, 14.7% of the respondents strongly agreed that businesses have improved because of their competitive advantage in the last couple of years, 28.4% of them agreed, 4.9% strongly disagreed, 27.5% of them disagreed while 24.5% of them were undecided. The mean for them item was 3.21 meaning that it has been fully established that the business had improved over the last couple of years because of the competitive position.

Furthermore, 4.9% of the respondents strongly agreed that the business has experienced growth in profit over the past few years, 22.5% of them agreed, 16.7% of them strongly disagreed, 6.9% disagreed while 49% of the respondents were undecided. The results were backed up by a mean of 2.92 and a standard deviation of 1.078. Finally, 2.9% of the respondents strongly agreed that they have turnover growth for their business over the past few years, 23.5% of them agreed, 56.9% of the respondents disagreed while 16.7% of them were neutral. The item realized a mean of 2.73 and a standard deviation of 0.924.

### 4.3.2 Innovativeness

Table 4. 5: Innovativeness

| Statement  | Mean | Stdev |
|--|------|-------|
| Our business regularly introduces new services/products/processes.   | 3.45 | 0.816 |
| Our business places a strong emphasis on new and innovative products/services.   | 3.98 | 0.808 |
| Our business has increased the number of services/products offered during the past two years.  | 4.09 | 1.025 |
| Our business is continually pursuing new opportunities.  | 3.71 | 1.03  |
| Over the past few years, changes in our processes, services and product lines have been quite dramatic.  | 3.76 | 0.903 |
| In our business there is a strong relationship between the number of new ideas generated and the number of new ideas successfully implemented. | 3.96 | 1.08  |

|   |      |       |
|---|------|-------|
| Our business places a strong emphasis on continuous improvement in products/service delivery.                         | 3.82 | 0.66  |
| Our business has a widely held belief that innovation is an absolute necessity for the business' future.              | 3.71 | 0.765 |
| Our leaders seek to maximize value from opportunities without constraint to existing models, structures or resources. | 3.16 | 0.567 |

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**\*means of above 2.5 indicate a very strong significance of the statements to the statements. It means most respondents agreed with the statements. The insignificant deviations from the mean confirms the validity of the statements.**

On the whole, the respondents were in agreement that the bank has increased online marketing. This is supported by a mean of 4.09 and a standard deviation of 1.025. According to the business place, emphases are made on innovative product and services that are new; with 22.5% of the respondents strongly agreeing to that fact; 61.8% of them agreed, 8.8% disagreed while 6.9% of them were undecided. The mean of the item was 3.98 and the standard deviation at 0.808.

With regard to whether the in our business there is a strong relationship between the number of new ideas generated and the number of new ideas successfully implemented, 43.1% of the respondents strongly agreed, 22.5% of them agreed, 12.7% of them disagreed while 21.6% of the respondents were undecided. This item had a mean value of 3.96 with a standard deviation of 1.08.

In a bid to establish if the Over the past few years, changes in our processes, services and product lines have been quite dramatic, the respondents were asked for their opinion on the same. The results were such that 26.5% of the respondents strongly agreed on the item; while 28.4% of them agreed, 4.9% disagreed while 40.2% of them were undecided. This summed up to with a mean value of 3.76 and standard deviation of 0.903.

In addition, 25.5% of the respondents strongly agreed that the business is continually pursuing new opportunities, 36.3% of them agreed, 16.7% disagreed while 21.6% of the respondents were undecided. The results summed up to a mean of 3.71 and a standard deviation of 1.03 implying that our business is continually pursuing new opportunities. Finally, 11.8% of the respondents strongly agreed that the leadership needed to maximum value from the available opportunities presented to them without the constraining effect of existing models, structures and resources, 30.4% of them agreed, 8.8% disagreed while 49% of the respondents were undecided

### 4.3.3 Behavioral innovativeness

**Table 4. 6: Behavioural Innovativeness**

| Statement   | Mean | Stdev |
|---|------|-------|
| Employees have enough autonomy in their job to do their work without continual supervision.                 | 3.5  | 1.124 |
| Business allows me and my employees to be creative and try different methods to do our job.                 | 3.95 | 1.047 |
| Employees in our business are encouraged to manage their own work and have flexibility to resolve problems. | 3.71 | 1.04  |
| Business regularly introduces new services/products/processes.  | 4.15 | 0.959 |
| Business places a strong emphasis on new and innovative products/services.                                  | 3.83 | 0.832 |

**\*means of above 2.5 indicate a very strong significance of the statements to the statements. It means most respondents agreed with the statements. The insignificant deviations from the mean confirms the validity of the statements.**

The results revealed that 26.5% of the respondents strongly agreed, 19.6% of them agreed, 20.6% disagreed while 32.4% of them were undecided. The results summed up at 3.5 mean value with 1.1.24 as the standard deviation value. The findings show that employees have enough autonomy to handle their jobs without supervision.

In an attempt to establish whether the business allows employees to be creative and try different methods to do our job, the respondents were asked to respond accordingly. The results were such that 35.3% of them strongly agreed; 37.3% of them agreed, 4.9% disagreed, 3.9% strongly disagreed while 18.6% of them were undecided on the issue of creativity they are allowed in their jobs. The findings show a mean value for 3.95 and standard deviation of 1.047.

Also, the study enquired whether the bank employees in our business are encouraged to manage their own work and have flexibility to resolve problems. The results were such that 22.5% of the respondents strongly agreed, 42.2% of them agreed, 3.9% strongly disagreed, 8.8% disagreed while 22.5% of them were undecided. This shows item was agreed with a mean of 3.71 and 1.04 for standard deviation.

Finally, 47.1% of the respondents strongly agreed that the Businessregularly introduces new services/products/processes., 27.5% of them agreed, 6.9% of them disagreed while 18.6% of

them were undecided. The item had a mean of 4.15 and a standard deviation of 0.959. Generally, the results on behavioral innovativeness summed up to a mean of 3.826 and a standard deviation of 0.832 an indication that the banks allow new innovative ideas among new employees, encourages creativity among employees, regularly hires new employees with expertise in different areas and ensures employees are regularly trained to bring new change to the firm. These findings are similar to the findings of Swart et al. (2005) who asserted that employees showcase superior performance only with proper and good quality of training program that equips and motivates the employee to perform well.

#### 4.4 Correlation Analysis

Correlation is study variables relationship which ranges from -1.00 on the weak or lower end and up to +1.00 on the strong or higher end; with 0.00 showing no relationship between the variables being tested (Orodho, 2003).

Pearson R s the most widely used correlation coefficient which does least interval scales; this is calculated by taking the two variables covariance and diving by the product of the standard deviation. +1 shows positive linear relationship between the variables while -1 is a negative linear relationship (Young, 2009)

**Table 4. 7:**

|                  |                     | <b>BP</b> | <b>ProdI</b> | <b>Proci</b> | <b>BehI</b> | <b>EO</b> |
|------------------|---------------------|-----------|--------------|--------------|-------------|-----------|
| Bank performance | Pearson Correlation | 1         |              |              |             |           |
|                  | Sig. (2-tailed)     |           |              |              |             |           |
| Product          | Pearson Correlation | .212      | 1            |              |             |           |

|                             |                     |      |        |        |        |   |
|-----------------------------|---------------------|------|--------|--------|--------|---|
| innovativeness              | Sig. (2-tailed)     | .012 |        |        |        |   |
| Process innovativeness      | Pearson Correlation | .108 | .208*  | 1      |        |   |
|                             | Sig. (2-tailed)     | .027 | .039   |        |        |   |
| Behavioral innovativeness   | Pearson Correlation | .183 | .248*  | .330** |        |   |
|                             | Sig. (2-tailed)     | .015 | .013   | .001   |        |   |
| Entrepreneurial orientation | Pearson Correlation | .152 | .281** | .290** | .329** | 1 |
|                             | Sig. (2-tailed)     | .023 | .005   | .004   | .001   |   |

A correlation analysis was to find out how strategic directions, environmental analysis, stakeholder involvement and resource allocation are correlated with performance of ministry of agriculture, livestock and fisheries. Table 4.9 shows positive Pearson correlation coefficients form all the four factors discussed. Product innovativeness has a positive correlation at 0.212 and a  $p=0.012<0.05$  with performance, Process innovativeness has a positive correlation at 0.183 and  $p=0.015<0.05$  with the performance, Behavioral innovativeness has a positive correlation at 0.152 and a  $p= 0.023<0.05$  with the performance while environmental anal Entrepreneurial orientation has a positive correlation at 0.108 and a  $p= 0.027<0.05$  with ministerial performance. These findings indicate that there was a positive linear correlation for the study variables (Product, Process, Behavioral and Entrepreneurial) with dependent variable (performance)

#### 4.5 Regression Analysis

The research study wanted to examine the effect of entrepreneurial orientation on performance of commercial banks in Kenya. To get performance of the banks licensed by Central Bank of Kenya, Banks performance was calculated for the 75.41% of the banks. On the other hand, entrepreneurial orientation of the banks licensed by Central Bank of Kenya was obtained by calculating the Entrepreneurial orientation of the banks.

Findings show a weak but positive relationship where  $R=0.332$  and it also showed that 11.0% of entrepreneurial orientation of the banks licensed at the Central Bank of Kenya can be explained by the independent study variables and at 90% confidence level. The study variables produced statistically significant values where t-values are high at,  $p<0.1$  hence the values can be relied upon to explain entrepreneurial orientation of the banks licensed at the Central Bank of Kenya

However, when tested individually only entrepreneurial orientation produces statistically significant values. The below model was used to establish the relations that entrepreneurial orientation has on financial performance.

$$ROE = \alpha + \beta_1(I) + \beta_2(FS) + \varepsilon$$

The findings of the study are tabulated and discussed as below. They are as shown in the tables 4.6, 4.7 and 4.8:

**Table 4. 8:Model Summary**

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1     | .332 <sup>a</sup> | .110     | .069              | 21.3771425                 |

**Source:ResearchData2017**

**Table 4. 9:ANOVA**

| Model        | Sum of Squares   | df        | Mean Square | F     | Sig.              |
|--------------|------------------|-----------|-------------|-------|-------------------|
| Regression   | 2431.678         | 2         | 1215.839    | 2.661 | .081 <sup>a</sup> |
| Residual     | 19650.235        | 43        | 456.982     |       |                   |
| <b>Total</b> | <b>22081.913</b> | <b>45</b> |             |       |                   |

a. Predictors:(Constant),Entrepreneurial orientation

b. Dependent Variable: Performance

Source: Research Data 2017

Positive effect was reported for total assets ( $\beta=.010$ ); but Entrepreneurial orientation had a negative ( $\beta= -.472$ ). If factors were held constant, entrepreneurial orientation would have increased by 0.369. Sig value in the ANOVA table was at 0.081 which is below 0.05 meaning it is statistically significant.

**Table 4. 10: Coefficients**

| Model |                                 | Unstandardized Coefficients |           | Standardized Coefficients | t      | Sig. |
|-------|---------------------------------|-----------------------------|-----------|---------------------------|--------|------|
|       |                                 | B                           | Std.Error | Beta                      |        |      |
| 1     | (Constant)                      |                             |           |                           |        |      |
|       | Performance of commercial banks | 16.369                      | 4.542     |                           | 3.604  | .001 |
|       | Product innovativeness          | .37                         | .215      | -.316                     | -2.193 | .003 |
|       | Process innovativeness          | .110                        | .018      | .081                      | 1.23   | .001 |
|       | Behavioral innovativeness       | .12                         | .021      | .753                      | .541   | .002 |
|       | Entrepreneurial orientation     | .40                         | .124      | .652                      | .564   | .001 |

Dependent Variable: Performance of commercial banks

Source: Research Data 2017

#### 4.6 Interpretation of Findings

The entrepreneurial orientation of the commercial banks was measured by performance. Levels of Entrepreneurial orientation amongst commercial banks in Kenya were considered. The findings from the study revealed that Entrepreneurial orientation had an inverse relationship of entrepreneurial orientation on the performance of commercial banks. Entrepreneurial orientation ( $\beta=-0.472$ ) indicates that with a 1 percent increase there is increase in performance. This result is consistent with findings by Zeitun and Tian (2007) who also established that entrepreneurial orientation has a significant and negative impact on banks performance.

From the study at 95% confidence level, entrepreneurial orientation produced statistically significant values that were greater than 0.05 of p which is the standard. The p-values for entrepreneurial orientation was found to be 0.034 from the coefficient table and this is less than 0.05 hence the model can be accepted to produce significant results.

The result was also found not to be in agreement with Mwangi (2010) study on entrepreneurial orientation on banks licensed at the Nairobi Securities Exchange on the relationship between entrepreneurial orientation and financial performance. Strong relationship was found to be between product innovation and banks performance. However, others find mixed results regarding the impact of entrepreneurial orientation on banks performance. This can best be



supported by the argument that innovation introduces varying levels of risk to the company and on the return to shareholders.

Growth rate is also linked to entrepreneurial orientation and produces insignificantly positive results. This result collaborates with Driblets & Fix (2003) findings. Negative relation between growth and performance was found in all the banks. These results suggest that growing banks use more innovations. The result corresponds with findings of Barclays, et.al., (1995) and Rajan & Zingalez (1995), who found a positive relationship. This result suggests that growth is not a factor to consider when making entrepreneurial orientation choice. Kuria (2010) also found the same result that growth is not a very important determinant of entrepreneurial orientation.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter aims at linking and applying the results obtained from the study to solve real life entrepreneurial orientation and performance misalignments as described before in the problem statement. This chapter will also elucidate the policy recommendations that policy makers can implement in order to better align institutions raising initiatives with the banks performance. Indeed, policy and firm decision makers can play a bigger role in ensuring that leverage risk considerations forms part of the criteria that banks use when making financing decisions as they know that it will ultimately impact on the banks performance.

#### **5.2 Summary of Findings**

The main objective of this study was to establish the effect of Entrepreneurial orientation on Performance of the commercial banks licensed and regulated by the Central Bank of Kenya. To achieve the objective the researcher sampled banks licensed under the Central Bank of Kenya that exhibited study characteristics and the main source of data was secondary that was collected through reviewing documents, annual reports of the sampled commercial banks published books of accounts.

Findings showed a weak positive relationship between the variables such that  $R = 0.332$  and the study also revealed that 11.0% of entrepreneurial orientation of the banks licensed at the Central Bank of Kenya can be explained by the independent variables. It is then evident that at 90% confidence level, the study variables produce statistically significant values (high t-values,  $p < 0.1$ .) and combination of variables can be relied on to explain entrepreneurial orientation of the banks licensed at the Central Bank of Kenya. From the findings, a conclusion is made such that Entrepreneurial orientation had an inverse relationship with banks performance.

#### **5.3 Conclusion**

The conclusion is supported by regression analysis results that the higher the Entrepreneurial orientation, the more the banks performance therefore showed us the need to increase more funds to innovation ideas. This is of value when the directors are trying to fund the banks to understand

the impact of entrepreneurial orientation on their financial performance with cost implications. It was evident from the study and analysis arising thereof. This study established that entrepreneurial orientation can be used to boost banks' competitiveness and also performance. And also both market and investment analysts should advise the investors as well banks on the optimal entrepreneurial innovations based on entrepreneurial orientation analysis.

It's also evident from the study that there is a positive relationship between capital structure and entrepreneurial orientation. The capital structure affects the performance and growth of commercial banks and so does entrepreneurial orientation and both fulfill the expectation of shareholders and creditors. Capital structure helps in the growth of banks and determines their performance in the economy. Innovation also affects positively the capital structure of an organization.

Market orientation is an important aspect of entrepreneurial orientation this can be achieved through the satisfaction of needs which may result in process and product innovation. On the other hand, market orientation is able to identify the unmet and unexpressed needs through observing the customer behaviors as exhibited through risk taking, innovation, pro-activeness and autonomy leading to aggressive competition hence creation of innovative products and processes. Market orientation and entrepreneurial orientation are seen as dynamic and effective. This study also offered empirical evidence about the relation that entrepreneurial orientation has on market orientation and performance. Since the adoption of entrepreneurship and market orientation as a part of the organizational culture requires a great deal of effort, so understanding the relationship between these orientations is necessary to implement and use them in performance. Our analysis focused on the relationship between entrepreneurship and market orientation. Both orientations shared participation level and in the meantime, market orientation facilitated implementing entrepreneurship. Each of these orientations can be considered separately, however the results of our analysis suggest that both orientations are used together. As per the study results, the following suggestions are provided to improve the performance of banks:

Conflict is a deterrent to the entrepreneurial orientation development in the banking system of the country. In order to overcome this obstacle, staff must be encouraged to discuss doing things and to communicate their views properly. Furthermore, the objectives and interests of

work units must be aligned with each other and with the overall goals of the organization and open dialogue must constantly exist. This can facilitate entrepreneurial orientation in banks. Also employing formal and informal mechanisms to solve conflicts and to improve communication, trust, cooperation and coordination plays an important role in boosting entrepreneurial orientation.

It is recommended that banks adopt appropriate procedures regarding human resources management, and use advanced technology for better and more appropriate orientation in the market and consequently, performance improvement, and provide distinctive new services taking advantage of these technologies.

Overcoming weaknesses regarding competitor orientation in the domain of market orientation culture, by providing banking services keeping pace with latest technology, velocity in introducing new services, introducing reliable banking services, creating a distinctive image of these services and improving the existing services in comparison with the competitors with the goal of proactiveness in banking services market.

#### **5.4 Recommendations**

As a recommendation, the evolving world of today, due to growing environmental uncertainty, constant changes and numerous challenges, one of the effective strategies for the organizations to be able to adapt to rapid evolutions and to survive dynamically is entrepreneurial orientation and becoming an entrepreneurial organization. Many organizations realized the importance and necessity of entrepreneurship and entrepreneurial orientation. In fact, such a change in strategy is in response to a need that has arisen as a result of widespread changes and threats. Thus in the course of development, only organizations and societies can rapidly move forward that they can utilize the opportunities in the right way and right time. Market orientation can help effectively improve the performance of the institutions such as banks which have numerous interactions with clients and financial and non-financial markets.

Banks must make an effort to replace traditional structures with informal and decentralized structures so that they can boost entrepreneurial orientation and as a result, be able to quickly respond to client needs in an appropriate manner. Therefore, it is recommended that rules and regulations are reduced and barriers to communication and information exchange are

minimized in order to boost entrepreneurial orientation in banks, while providing the experts and professionals with more freedom by using organic and dynamic structures.

Due to the importance of innovation and initiative in using the opportunities and overcoming the challenges of competitors, bank managers' risk-taking must be improved so that they can meet the changing and diverse client needs and properly exploit the environmental opportunities.

### **5.5 Limitations of the Study**

The faced a number of challenges, such as unwillingness to participate in the study and give confidential information as per company policies; the researcher assured the respondents of the purpose of the study being academic and confidentiality of the responses. Some respondents proceed on leave without finishing filling the question, the researcher constantly reminded them to fill them, using phone calls, texts and e-mail. Another challenge was some respondents giving inadequate responses for fear of giving their honest opinion of events at their places of work; the researcher issued an introduction letter from the university to ease their suspicion and also sought permission from the management before undertaking the study.

The results of this study are subject to limitations in terms of generalizations made in regard to banking institutions. This limitation was mitigated by the application of both qualitative and quantitative research techniques where the weakness of one single approach is compensated by the strength of the other in order to achieve best results (Creswell & Clark, 2011). The limitation was also mitigated through the application of a census enquiry which is appropriate where the population is small and the elements are quite different from each other (Creswell & Clark, 2011). The findings are therefore regarded accurate since the population of formal and regulated banks is small, accessible and highly variable. The banks examined are members of banking association and those that are under the supervision of the Central Bank.

The study examined the effect of EO dimensions on the performance, however, there are other factors combined with EO dimensions that contribute to the performance of banks which were not examined. EO dimensions are multidimensional, interrelated and broad in their application. For instance, managing for competitive advantage means that the organization must stay ahead in innovation, quality and efficiency as well as being responsive to customer needs (Kinicki& Williams, 2011). This implies that examining one variable involved engaging interrelated

management concepts that explain the specific objective. The EO dimensions are therefore representative of many growth variables when combined as independent variables. In some cases the quality of information and responses lacked the depth the researcher was examining. This limitation was mitigated by making use of secondary data such as banks annual reports, relevant journals, Central Bank documents on financial reporting. These documents provided adequate secondary data to explain growth variables such as employment and performance in portfolio. The annual reports are prepared to enhance transparency and accountability which is required by donors and social investors and therefore enhance banks' ability to be innovative.

### **5.6 Suggestions for Further Studies**

First, this study focused on the licensed commercial banks by Central Bank of Kenya. Therefore, generalizations cannot be done to all licensed companies due to variance in sectors of the economy, organizational structure and asset base it is therefore, recommended that a narrow based study covering a specific segment or company be done to find out the Impact of Entrepreneurial orientation on Performance.

A similar study can be done on commercial banks in a few years to account for the changes in time period and assess the effect of entrepreneurial orientation on performance at other financial sectors like the insurance companies Central Bank of Kenya. Also the effect of entrepreneurial orientation on corporate strategy could be investigated further to gain a deeper understanding in that area. There should be use of marketing researches to identify the needs and wants of potential customers, competitors' strengths and weaknesses in new market segments and optimizing service delivery activities in order to develop aggressive competition and enter new markets.

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**Appendix I: Data Collection schedule (Figures in Millions (000, 000')**

| <b>No.</b> | <b>Firm</b> | <b>Entrepreneurial orientation</b> | <b>Profitability Ratio</b> | <b>Growth Rate</b> |
|------------|-------------|------------------------------------|----------------------------|--------------------|
|            |             |                                    |                            |                    |
|            |             |                                    |                            |                    |
|            |             |                                    |                            |                    |
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## Appendix II: Questionnaire

Please select the number which best describes your opinion about a specific question or statement on the effect of entrepreneurial orientation on performance of commercial banks in Kenya. Use a scale of 1-5 where; 1 = strongly disagree, 2 = Disagree, 3 = Neutral, 4 = Agree and 5 = strongly agree.

### 1. Performance

| statement  | 1 | 2 | 3 | 4 | 5 |
|--|---|---|---|---|---|
| Our business has experienced growth in turnover over the past few years.                         |   |   |   |   |   |
| Our business has experienced growth in profit over the past few years.                           |   |   |   |   |   |
| Our business has experienced growth in market share over the past few years.                     |   |   |   |   |   |
| The competitive position of our business has improved over the past few years.                   |   |   |   |   |   |
| The effectiveness (doing the right things) of our business has improved over the past few years. |   |   |   |   |   |

Please select the number which best describes your opinion about a specific question or statement on the effect of entrepreneurial orientation on performance of commercial banks in Kenya. Use a scale of 1-5 where; 1 = strongly disagree, 2 = Disagree, 3 = Neutral, 4 = Agree and 5 = strongly agree.

### 2. Innovativeness

| statement   | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Our business regularly introduces new services/products/processes.                            |   |   |   |   |   |
| Our business places a strong emphasis on new and innovative products/services.                |   |   |   |   |   |
| Our business has increased the number of services/products offered during the past two years. |   |   |   |   |   |

|  |  |  |  |  |  |
|--|--|--|--|--|--|
| Our business is continually pursuing new opportunities.  |  |  |  |  |  |
| Over the past few years, changes in our processes, services and product lines have been quite dramatic.  |  |  |  |  |  |
| In our business there is a strong relationship between the number of new ideas generated and the number of new ideas successfully implemented. |  |  |  |  |  |
| Our business places a strong emphasis on continuous improvement in products/service delivery.  |  |  |  |  |  |
| Our business has a widely held belief that innovation is an absolute necessity for the business' future.                                       |  |  |  |  |  |
| Our leaders seek to maximize value from opportunities without constraint to existing models, structures or resources.                          |  |  |  |  |  |

Please select the number which best describes your opinion about a specific question or statement on the effect of entrepreneurial orientation on performance of commercial banks in Kenya. Use a scale of 1-5 where; 1 = strongly disagree, 2 = Disagree, 3 = Neutral, 4 = Agree and 5 = strongly agree.

### 3. Behavioral innovativeness

| Statement   | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| My employees have enough autonomy in their job to do their work without continual supervision.              |   |   |   |   |   |
| My business allows me and my employees to be creative and try different methods to do our job.              |   |   |   |   |   |
| Employees in our business are encouraged to manage their own work and have flexibility to resolve problems. |   |   |   |   |   |
| Our business regularly introduces new services/products/processes.  |   |   |   |   |   |
| Our business places a strong emphasis on new and innovative products/services.                              |   |   |   |   |   |

### **Appendix III: List of Commercial Banks in Kenya**

1. ABC Bank (Kenya)
2. Bank of Africa
3. Bank of Baroda
4. Bank of India
5. Barclays Bank of Kenya
6. Stanbic Bank
7. Chase Bank Kenya (In Receivership)
8. Citibank
9. Commercial Bank of Africa
10. Consolidated Bank of Kenya
11. Cooperative Bank of Kenya
12. Credit Bank
13. Development Bank of Kenya
14. Diamond Trust Bank
15. Ecobank Kenya
16. Equity Bank
17. Family Bank
18. Fidelity Commercial Bank Limited
19. First Community Bank
20. Giro Commercial Bank
21. Guaranty Trust Bank Kenya
22. Guardian Bank
23. Gulf African Bank
24. Habib Bank
25. Habib Bank AG Zurich
26. Housing Finance Company of Kenya
27. I&M Bank
28. Imperial Bank Kenya (In receivership)
29. Jamii Bora Bank



30. Kenya Commercial Bank
31. Middle East Bank Kenya
32. National Bank of Kenya
33. NIC Bank
34. Oriental Commercial Bank
35. Paramount Universal Bank
36. Prime Bank (Kenya)
37. Sidian Bank
38. Spire Bank
39. Standard Chartered Kenya
40. Trans National Bank Kenya
41. United Bank for Africa
42. Victoria Commercial Bank