

**THE ROLE OF ENTREPRENEURIAL ORIENTATION ON THE
GROWTH OF SMALL AND MEDIUM ENTERPRISES IN NAIROBI
COUNTY**

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**THIS RESEARCH PROPOSAL IS SUBMITTED IN PARTIAL
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DECLARATION

This research project is my original work and has not been submitted for examination in any other University. No part of this work should be reproduced without my consent or that of the University of Nairobi

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This research project has been submitted for examination with my approval as University supervisor.

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DEDICATION

This proposal is dedicated to my family; wife Lucy Wanjeri, my son Alan Kamendi and daughters Irene Wanjiru and Lora Wanjiku.

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LIST OF ACRONYMS AND ABBREVIATIONS

GDP	Gross Domestic Product
RoK	Republic of Kenya
SMEs	Small Medium sized Enterprises
UK	United Kingdom
USA	United States of America
WB	World Bank

ABSTRACT

The entrepreneurial orientation of an organization is described as a dimension of strategic posture represented by a firm's risk taking propensity and the tendency to act in a competitively aggressive, proactive manner while relying frequently on product innovation. Organizations are said to have entrepreneurial orientation when a group of innovative members of the organization work together to produce fresh ideas and they are accorded a conducive atmosphere to act on those ideas. Small and Medium enterprises (SMEs) play an important economic role in many countries the world over. The background information of the study indicates that SMEs are faced by constant threat of failure and most do not graduate into large enterprises. Past studies indicate that the SMEs sector in Kenya is characterized by high mortality rate for every five started three fail before the sixth month; over 60% fail each year; and most do not survive to their third anniversary. Nairobi County receives the highest revenue allocation to counties accounting for approximately 10% of the total national allocation (Kenya National Bureau of Statistics, 2015). The county's infrastructure is relatively well developed with a good communications system. It's the country's industrial base, is estimated to account for 20% of the country's GDP. In spite of their economic importance to the county, the failure rate of SMEs in Nairobi is between 70% and 80%. This casts doubt on this sector's ability to create and sustain employment which reduces poverty. The lack of SME growth in Nairobi could perhaps be attributed to them lacking the needed entrepreneurial orientation. The study sought to investigate the role of entrepreneurial orientation on the growth of small and medium enterprises in Nairobi County. The research study used an exploratory research study. The target population was the registered SMEs in Nairobi County. This comprised a total of all the 2248 registered SMEs business with Nairobi County. The sample size of this study was therefore 226 SME respondents. Data collection was done using semi-structure questionnaires. A descriptive analysis was employed. Multiple regressions were used to measure the quantitative data which was analyzed using SPSS. Tables and other graphical presentations were used to present the data collected for ease of analysis and interpretation. Risk taking was found to be a critical factor of entrepreneurial orientation on the growth of small and medium enterprises. In terms of magnitude, the findings indicated that risk taking had the highest effect on growth of Nairobi Smes followed by Pro-activeness, then innovativeness which had the least effect on growth of small and medium enterprises. All the variables were significant as their P-values were less than 0.05. It can be concluded that risk taking has the highest effect on growth of small and medium enterprises. The study recommends that the small and medium enterprises owners should invest in research and development to come up with new products and services that would be competitive in the market. SMEs owners should pursue new markets and apply new business processes like outsourcing to enhance business growth.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The importance of small and medium enterprises and entrepreneurship to countries' economies has gained significance recently; large firms in an effort to remain profitable are implementing mass lay-offs on non-core sectors of their business (Van Stel et al., 2005). Similarly, a number of scholars recognize and appreciate the crucial role played by Small and medium enterprises as engines for driving economic growth. The economic welfare and competitiveness of most economies both nationally and internationally depends to a large extent with the general health of small and medium enterprises of the country. For example in US 85 per cent of new jobs are generated by SMEs (Audretsch, 2002; Lappalainen and Niskanen, 2009; Lappalainen and Niskanen 2012). As Small and Medium Enterprises and entrepreneurial activity increasingly become indispensable to economic progress, the study of how this business and entrepreneurs in general can improve their performance to guarantee themselves survival in the harsh economic environment has become even more important. Coping with the turbulent economic conditions require business owners to demonstrate special capabilities, such as innovativeness, flexibility and adaptability.

Entrepreneurship literatures offer useful concepts that would be utilized when searching for possible reparations or heighten their business's chances of surviving harsh economic times. Hakala (2011) singled out a number of business entrepreneur orientations, such as technology, market, and strategic orientation which have gained notable attention from management scholars and business managers. Numerous studies shows that one of these orientations alone (Kohli and

Jaworski, 1990; Calantone et al., 2002; Wiklund and Shepherd, 2005) and a combinations of several of these orientations may provide a source of competitive advantage and high performance for firms (Hult et al., 2004). As these Orientations are all significant drivers of a business's performance, we put more emphasis on entrepreneurial orientation.

This study is grounded on two theories, the Schumpeter innovation theory and McClelland psychological theory. Schumpeter (1934) pioneered the role played by innovation in entrepreneurial process; he describes a process of “creative destruction” this happens when existing market structures are disrupted by new goods and services, that transfer resources away from existing business to new ones resulting to wealth creation through establishments of new firms. On the other hand McClelland psychological theory argues that an individual whose need for achievement are high would put efforts and skills to accomplish challenging goals that they set, this they do through taking moderate risks and taking personal responsibilities for all decisions made.(McClelland, 1961). In this regard, business managers and entrepreneurs are regarded to have a high need for achievement; therefore it cannot be assumed that entrepreneurs are more risks takers than managers (Kirby, 2003). This implies that risk taking between managers and entrepreneurs has no significant difference.

Being the Kenyan capital, Nairobi County is home to about 60% of the SMEs in Kenya which straddle across various sectors ranging from the informal sector, banking, retail, and farming. The County receives the highest revenue allocation to counties accounting for approximately 10% of the total national allocation (Kenya National Bureau of Statistics, 2015). The county is therefore an industrial base, having an infrastructure and communication relatively well

developed. It is approximated to account for 20% of the country's GDP (Cities of the World, 2008). Apart from contributing a significant amount of money to Kenya's economy Nairobi is also considered the business hub of not just the country but of East and Central Africa. With services concentrated in Nairobi, several SMEs and companies have their bases located in the county or at its periphery. The county thus provides good sample for the study.

1.1.1 Entrepreneurial Orientation

Various scholars have provided a number of definitions for the concept of EO. Miller (1983) was first to envisage the construct of Entrepreneurial Orientation and defined it as a strategic orientation that specifically captures entrepreneurial aspects such as decision-making styles, management methods and management practices. Covin and Slevin (1989) improved on the definition by looking at EO as a measure of the degree to which "top managers are inclined to take business-related risks, to favor change and innovation in order to obtain a competitive advantage for their firm, and to compete aggressively with other firms."

Studies conducted empirically and conceptually based on Colvin &Slevin (1991) and Lumpkin &Dess (1996) conceptualized EO. While the former posited a more one-dimensional construct, the latter postulated the construct of EO to be multidimensional. This study adopted Lumpkin and Dess (1996) model to test the construct's multidimensionality. They argue that entrepreneurial orientation is a multidimensional construct and the success of a business depends on it its environmental and organizational context, which is in contrast with Kropp et al (2006) position that innovation is essential for the growth of firms.

The Entrepreneurial Orientation dimensions identified by Lumpkin and Dess (1996) comprise of Innovativeness which refers to the business inclination towards supporting experimentation with new ideas, novelty, and creativity that may bring forth new products, new services or new processes. Pro-activeness is a when business owners anticipate future needs, problems, or changes while Risk-taking is the extent to which business owners willingly commit huge resources in risky ventures. Competitive aggressiveness is businesses propensity to challenge its competitors directly and intensely so as to achieve market entry or improve their position; Autonomy is when an individual or a group of individuals create an idea or a vision which they pursue to the end Lumpkin and Dess, 1996).

1.1.2 Enterprises Growth

The growth of SMEs may be measured specifically in-terms of financial or employees numbers (Matthews & Human, 2000). Increase of sales, return on equity and accumulation of asserts all represent growth (Gatenya, 2012). Businesses with high EO can aim at market segments that are premium where they can charge higher prices by skimming the market ahead of competitors. High profit margins yield resources for further expansion (Zahra & Covin, 1995).

The stage models of growth of small business suggest that in pursuit of growth small firm's progress from inception stage up to maturity stage (Scott and Bruce, 1987). Entrepreneurs and managers play different roles and use different management styles at each of the stages, since the organization structure keeps on changing. During Inception/Existence the entrepreneur main objective is to create the business by obtaining customers and proving the product or service. The owner is involved in everything, employees have to consult him regularly, and thus he must

possess operational abilities to be able to source for resources both financial and human to build business relationships and compete for a position in the market and industry. Business and Personal goals will be crucial in developing a product that is commercially acceptable and has a place in the market. The industry lifecycle determines how challenging this would be.

At Survival stage the business has shown its viability potential and has affirmed a niche in the market. The immediate Key issues are balancing revenues and expenses so as to achieve break even, with sufficient funds which would be required for capital assets maintenance. While in the longer run, the business has to addle an economic return to its labor its assets by generating enough cash flow. According to Eggers et al, (2009) at stabilization stage the business is viable economically and is able to support the owners as well as return a profit. It is likely to have developed functional business structures, having professional managers. From this point the business may progress to rapid growth through to maturity or remain at this level if the business environment does not change.

A firms EO may have implications on how it pursues growth. Longitudinal research on high growth firms Davison (1997) suggests that the growth strategy or business growth relationship is influenced by the size or age of the business. When young and small, growth oriented businesses pursue organic growth while when old and large growth is mainly through mergers and acquisitions. Successfully managing growth requires more than an intellectual understanding of what to do. It demands that the manager develops a new concept of his role as well as skills and abilities to fulfill that role. (HBS 1993; managing transition in growing enterprises)

1.1.3 Small and Medium Enterprises (SMEs)

The definition of SMEs cannot be universal, it vary from country to country. In Australia, for example, SMEs are defined as those businesses employing between five and 199 workers (Kotey & Folker, 2007). In Indonesia, SMEs are those businesses with between 5 and 99 workers (Mira, 2006).The World Bank (2002) has defined SMEs; Micro enterprises have 1–9 workers; small-scale enterprises have 10–49 workers and medium enterprises have between 50 and 249 employees. This is the definition in most countries; this however did not match our local definition of SMEs, in which case the local definition took precedence.

In East Africa most SMEs started as small family businesses or small group called ‘chamas’. The coherence of these groups has greatly contributed to the growth and development of small and medium enterprises in Kenya. The Kenyan Government participation in their evolvement and development was clearly elaborated in the published session paper no.2 (1992) on unemployment and development. Initially the challenge was on the government’s ability to improve the SMEs growth and expand their intention of job creation (GOK 1992). Referring back to session paper 1 of 1986 on economic management for reward growth, the importance of this informal business sector was clearly displayed especially in its contribution to the country’s overall development to economy, employment creation was crucial during the economic crisis and structural adjustment policies evident at the time of the inception of the policy (GOK-1986).

Small and Medium Enterprises (SMEs) entities are dynamic. Some grow into large enterprises; others stabilize at the same scale of operation, while others wind up altogether (Bhalla, 1992).

The Sessional Paper No. 2 on Small Enterprise and Jua Kali Development in Kenya set out a policy framework that comprehensively promoted growth and catalyzed SMEs transition. The government planned to achieve this through facilitating finance access credit access as well as access to market information. This direct assistance to Micro enterprises was expected to register their positive growth (GoK, 1992).

1.1.4 Small and Medium Enterprises (SMEs) in Nairobi County

Nairobi County is home to Nairobi city, the capital of Kenya. It is Kenya's administrative, economic and cultural centre and is rated among the largest cities in Africa that are fast growing. Being the Kenyan capital, Nairobi County is home to about 60% of the SMEs in Kenya which straddle across various sectors ranging from the informal sector, banking, retail, farming etc, according to the economic survey 2014, small and medium enterprises hold 70% of the industrial employment and generate more than 50% of the Gross Domestic Product. It is estimated that Nairobi County is home to an estimated 5 million micro and small-scale enterprises, employing 8 million people (Memba, 2014).

Apart from contributing a significant amount of money to Kenya's economy Nairobi is also considered the business hub of not just the country but of East and Central Africa. With services concentrated in Nairobi, several SMEs and companies have their bases located in the county or at its periphery. Financial institutions, telecommunication service providers, and other business organizations that provide digital financial services are also well represented in Nairobi. The county thus provides good sample base for the study.

1.2 Research problem

Firms spend a huge amount of resources to sustain their business and remain competitive in the market by improving their internal processes (Day & Lichtenstein (2006)). EO in an organization helps adjust operations in the dynamic competitive environment, it changes and shapes the environment for organization resources to exploit uncertain opportunities through new and creative ideas as a result of changes in the market. Stevenson & Jarillo (1990) connect entrepreneurial orientation toward direction of growth with the entrepreneurial business culture, while Stewart and Roth (2001) regarded entrepreneurial SME proprietors as growth oriented. SMEs that are open to learning may identify opportunities to exploit through an EO that facilitates growth (J.Kirk(2015)) while senior managers may favor innovative activities as a display of high level of pro-activeness in high risk tolerance environment, which positively impacts on firm performance, M.kreiser (2010).

In Nairobi, SMEs have been identified as a priority by the government in creating jobs and reducing the high unemployment rate currently estimated at 33.9% (Statistics Kenya 2014). In addition, SMEs play an important role in improving the economic growth and reducing wealth inequalities of Nairobi residents (Pahad 2008). Adeniran and Johnston (2011) note that despite the highlighted importance of the SME sector, their rate of failure is estimated at between 70% and 80%. The limited growth of SMEs in Nairobi and their high failure rate may be associated with them lacking the entrepreneurial orientation needed.

Fatoki (2014) investigated "the entrepreneurial orientation of micro enterprises in the retail sector in South Africa" and the results revealed adeptness by micro enterprises at coming up with

new product lines and also changing to the present product lines, but weakness in research and development, pro-activeness and risk-taking. The study by Okeyo et al.(2014) on "performance of small and medium enterprises in manufacturing business in Kenya" found that EO and BDS play a greater role in improving performance of SMEs. Monica Ngetich(2015) on her study; "effect of strategic orientation on the performance of large retail stores in Nairobi" concluded that strategic orientation and EO enabled retail stores to launch New products in the market, adopt aggressive attitude towards competitors and review product development in line with customer needs.

The study on "effect of intellectual capital on the SMEs growth in Kenya" conducted by Ngugi (2013) established that communication skills, personal management competence and identification of market opportunities influenced to a large extent the growth of small and medium enterprises. These observations were arrived at since managerial skills which refer to a spectrum of individual capabilities in the enterprise, supplemented by effectiveness of a working team and strengthened by communication skills. Growth of SMEs therefore relied heavily on the experienced professional to create and maintain knowledge.

Increased attention has been paid to entrepreneurial potential of SMEs in Nairobi County which is perceived to be rich in opportunities, most researchers have applied other valuables to measure effect of EO on growth of SMEs and none has investigated the role of EO on its own. This study therefore intends to fill in this research gap.

1.3 Research Objective

To investigate the role played by entrepreneurial orientation on growth of small and medium enterprises in Nairobi County.

1.4 Value of the Study

The study will form a foundational basis on which Kenya's SMEs will be able to understand, appreciate and embrace the importance of entrepreneurial orientation.

The study findings will also be valuable to the SMEs owners and managers as they will be able to understand how entrepreneurial orientation positively influences performance of business. The recommendations given in the study will help the firms by equipping them with adequate tools to get the solutions to the problems posed by the identified factors.

The research study will add to the body of existing knowledge, make empirical contribution and attempt to bring an understanding on how small and medium enterprises in Kenya can be transformed to be competitive by adopting the entrepreneurial orientation.

The study will benefit the county government of Nairobi when making policy decisions that would ensure growth of Smes and hence improve the economy of the county.

The scholars and researchers who would like to carry out more studies or debate on small and medium enterprises with regard to entrepreneurial orientation.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter reviews the literature relevant to the role of entrepreneurial orientation to growth of small and medium enterprises. The chapter will develop the theoretical review and conceptual framework.

2.2 Theoretical Framework

Principles and statements that explain a phenomenon, facts and predictions that are universally tested and accepted represent a theory (Popper, 1963). Theories are tools that help to analytically explain and make predictions about a subject matter thus improving its understanding (Hawking, 1996).

2.2.1 Schumpeter's Innovation Theory

Schumpeter (1942) the pioneer of innovation, highlighted the importance of innovation to entrepreneurial development. Schumpeter (1942) describes the process of "creative destruction" this happens when market structures that are existing get disrupted when new goods are introduced and new services are offered, that transfers available resources from existing businesses to upcoming ones resulting to wealth creation through establishments of new firms. Accordingly, Schumpeter calls innovation the specific instrument of entrepreneurship, the means through which entrepreneurs use change to create a business opportunity by offering different

products and providing different services. Schumpeter (1942) stressed the role of entrepreneurs as main agents carrying out creative destruction, and emphasized to the entrepreneurs the need to look with determination for the sources of innovation, and the characteristics that indicate opportunities for successful innovation as well as applying innovations successfully.

Schumpeterian vein of thinking has been carried forward by successive scholars and researchers (Drucker 1985; Lumpkin, 1996; Shane, Chesbrough & Westhead, 1991). Drucker (2005) said that an entrepreneur is at all times looking for change, responding to the change and exploiting it as an opportunity by appealing to purposeful innovation. Lumpkin (1996) found out that the procedure of creative damage as started by an entrepreneur make innovation a significant achievement factor within EO. Moreover, the results of Westhead (1991), supports the connection between innovativeness and entrepreneurship. They found innovation to be key amongst the input motives to commence a business.

Schumpeterian theory supports the fact that technological development coming through innovations is propelled by businessmen pursuing profit. That is, each innovation creates new products and processes that provide the originator with a competitive edge in the market place over business rivals. It renders previous innovations obsolete and would be done the same in future by newer innovations (Schumpeter, 1934).

Osaze (2006), view pro-activity as setting one's goals and expectations and arriving at them as designed; a state of mind and the will, largely motivated by one's realization, to maintain a vision, to realize a mission, to achieve a difficult goal and to achieve a definite objective; as

envisioning a future on the way to which one plans the strategic parameters for influencing, impacting and recreating the surroundings within which to work in line with that vision; a purpose to excel in one's own chosen ground; and to follow and achieve one's own goal largely defined by self. Entrepreneurial pro-activeness can also be seen as alertness of the business. According to Barney (2002) entrepreneurial pro-activeness is the capability of the business to forecast where goods and services are not available or new ones have become valuable to consumers and where new procedures of industrialization not known to others has become viable. A proactive business focuses its future with regards to the present and the past, using its history to challenge its present and create its own proactive future (Osaze, 2003).

Innovation is very important to entrepreneurship as it an element of economic growth in any country. In the view of Ling, (2008), nations with the largest economies can be linked with great devotion to innovation and research. Currie, (2008) found out that in an external situation that is ever changing, innovation and entrepreneurial conduct are processes that are holistic, energetic and essentially balanced to business sustainability and success.

2.2.2 McClelland's Psychological Theory

This theory argues that a person whose need for achievement is high, sets challenging goals and accomplishes them through efforts and skills. He/she is a moderate risk-taker who takes personal responsibility for decisions made (McClelland 1961). Both managers and entrepreneurs it is argued have a high need for achievement. Traits, motives and incentives are the main ingredients that drive human being to achieve personal goals. According to McClelland, need for achievement injects power and energy into a human being system that makes him/her to begin

and go on with the business until a particular need is fulfilled. In his studies McClelland found out that that entrepreneurial business is enthused by an individual's need to achieve, which acts as a force to inspire the entrepreneur to generate ideas as well as energizing him to follow the ideas till they become a reality. McClelland conclusion was mostly based on the evidence from art, literature and the responses to questionnaire obtained from the citizen of the society intended at showing the link between economic growth and achievement.

McClelland also found out that, entrepreneurs vary in classes, tribe, or country. The dissimilarity arises as a result of diverse ideologies of personal accomplishment and not due to arrangement of values as argued by other theorists. Ethical measures were seen as the main aspect for business contest, provision of skill, money and management of assets. In support of this statement, he assured that; the challenge was to build up character by a means that will not be discarded as an unnecessary intrusion into a national way of life. The answer lies in presenting honestly the psychological evidence that positive motives have ideals for economic growth.

Drive for success is the reason behind entrepreneurship which McClelland claimed is in every human being. Maris (1972) in support of this he emphasised that the ideology which brings members into shared safety may legitimize their economic association and as it does so, drives them to performance. Ethnic and cultural loyalty connect a group together, with no continuous emphasis on the philosophy they share, entrepreneurship may be legitimized by realistic economic point of view whose primary value is barely stated and it may be inspired by a prevailing culture.

2.3 Dimensions of entrepreneurial orientation

Lumpkin and Dess (1996) proposes the following dimensions of EO; innovativeness, pro-activeness, risk-taking, and competitive aggressiveness.

2.3.1 Innovativeness

Schumpeter was among the first proponents to relate innovation and entrepreneurship. He emphasised that the role played by innovation in the entrepreneurial development. The economic process known as creative destruction where new business grow and generate wealth by unsettling existing market structures through introduction of new products and services that shift accessible resources away from existing business. The explanation to this series of activity was innovations.

Schumpeter (2002) the purest type of entrepreneur is the one who limits himself mainly to the uniqueness of entrepreneurial function and carry out new combination by use of innovation. According to Lumpkin (1996), innovativeness reflects a tendency for an enterprise to connect in and support new ideas, experimentation, and creative processes that may end up resulting to new products, services, or technological process. Innovation is a vital means of pursuing opportunities and so is an essential part of an entrepreneurial orientation (Lumpkin, 1996).

2.3.2 Pro-activeness

Lumpkin and Dess (1996) describe pro-activeness as "taking initiative by anticipating and pursuing new opportunities related to future demand and by participating in emerging markets". It may be explained also as an entrepreneurial activity which is distinctive and precedes

imminent expectations in terms of the products, customer demands, the market or technologies (Schillo, 2011). Again, it's the skills that change the current business status by predicting future business trends through the exploration of existing opportunities (Boohene, 2012).

Pro-activeness is connected with leadership and taking initiative, a proactive enterprise has the resolve and insight to seize new opportunities even if it is not for all time the first to do so, according to Lumpkin (1996). Pro-activeness is considered to differ from competitive aggressiveness when connecting to market opportunities in entrepreneurship; pro-activeness is seizing initiative and acting opportunistically in order to shape the surroundings (Lumpkin 1996).

2.3.3 Risk-taking

Pursuant to this, Miller and Friesen (2008) defined risk-taking as "the degree to which managers are willing to make large and risky resource commitments, that is, those which have a reasonable chance of costly failures". Lumpkin and Dess (2006) confirm this assertion by stating that an entrepreneurially oriented business commits huge borrowed resources to seize an opportunity in the market that would earn high returns.

Methods or management styles associated with risk-taking indicates entrepreneurial orientation; however, in a different context the effect of risk taking on business performance were expected to differ (Lumpkin 1996). According to Lumpkin (1996), risk-taking propensity is a behavioral measurement of an entrepreneurial orientation alongside which opportunity is pursued.

Empirical studies conducted previously concerning such a relationship revealed conflicting results. Psychological theories anchor on the fact that risk taking has been found to be associated with entrepreneurial inclination. Other studies have found that risk-taking as an entrepreneurial feature predict success only to some extent (Rauch & Frese, 2009), while others found no such relationship at all (Kraus et al. 2005). The overall relationship between risk-taking, entrepreneurship, and business success was minimal, indicating the presence of moderators. This leads to the conclusion that risk-taking has a significant positive effect on entrepreneurship and business success.

2.3.4 Autonomy

The tendency toward independence or autonomy is a key component of entrepreneurial orientation (Lumpkin and Dess, 1996). This component (autonomy) is seen when an individual or group of individuals acting freely and independently bring forth an idea or a vision and are able to propels it to its fulfilment in spite of stringent organizational limitations (Lumpkin and Dess, 1996). It depicts a person's strong desire for freedom when developing and implementing an idea (Lumpkin, 2009).

Autonomy may be organizational or general, organisational autonomy is when an individual or group are given an opportunity to champion new ideas and practice their inventions without hierarchical limitations (Lumpkin and Dess, 1996). On the other hand Autonomy may be categorised as strategic or structural (Bleeker, 2011) according to him structural autonomy allows teams to self determine how to solve problems while strategic autonomy is when teams

have control of the ends or goals they want to achieve. Therefore, as one of EO dimensions Autonomy is key and necessary to entrepreneurship.

2.3.5 Competitive aggressiveness

Competitive aggressiveness, for Lumpkin (1996), refers to a business propensity to directly and intensely challenge its competitors to accomplish entry or get better position in the market and is characterized by responsiveness in terms of argument or reactive action. In contrast to pro-activeness, which relates to marketplace opportunities, (Lumpkin, 1996) competitive aggressiveness shows how enterprises relates to competitors and reacts to existing demands and trends in the market. Competitive aggressiveness therefore, is how powerful the business efforts are in beating industry rivals and is portrayed as an intense reaction or confrontational stance to competitor's actions (Lumpkin and Dess, 1996). It can also be described as the ability to conceive multiple attacks with speed using varied strategies (Ferrier et al., 2002).

2.4 Measures of business growth

Business growth can be measured from sales levels, rate of profits, capital return, turnover and market share achieved (Jauch and Glueck, 1988). Constraints of growth in SMEs comes from weaknesses inherent in internal operation of SMEs; lack of knowledge in production and marketing, lack of financial skills as well as weakness in management capabilities (Tambungan, 2009).

Sanchez & Marin (2005) defines growth of small and medium business in terms of their profitability as well as market share. Profitability is the business growth looked from financial

targets achieved by organization as planned. Financial achievement in general focuses on cash flow, revenue, rate of return on capital and rate of return on investment. While Productivity is defined in terms of company achievement in its business activities to meet consumer wants, needs, as well as staff productivity. Business growth is based on market aspects in terms of success of product sales, market position and market share.

Business growth can be measured by considering the dimensions of entrepreneurial orientation (Yamada & Eshima, 2009). Entrepreneurial orientation can be measured by a nine-item, 7-point semantic differential type scale developed by Covin & Slevin (1986), based on the work of Miller and Friesen (1982). The study is developed to reflect management behavior in strategic entrepreneurship. The perceptions of clients and staff are collected and they are asked to assess the performance of a product line or a category over a certain period with the change in profit margins and market share as well as other similar factors taken into consideration over the time period (Avlonitis & Salavou, 2007).

2.5 Relationship between entrepreneurial orientation and Growth

The relationship between Entrepreneurial Orientation and business growth has become a central focus in studying EO (Convintal 2006). Numerous studies have showed that EO has a positive relationship directly or indirectly with firm growth (Wiklund and Shepherd, 2005, Li et al., 2009, Zahra and Garvis, 2000, Hunges and Morgan, 2007). This implies that business that adopts EO outperforms those that lack of such orientation. The relationship may be due to the ever-changing business environment that reduces the lifecycle of products and increases uncertainties (Rauch et al., 2000). Competitors and customers in the market place acts unpredictably which

makes regular product innovations necessary. Hughes and Morgan (2007) concluded that the effect of each Entrepreneurial Orientation dimension to growth performance defers, some of the dimensions were found not correlate at all with firm growth.

2.6 Conceptual framework

A Conceptual framework is a set of theories and broad ideas that assists a researcher to properly identify the problem he/she is investigating. It outlines possible courses of actions on how to present an idea. Academic researcher uses the conceptual framework to clarify his/her research question and aims.

Independent variables

Dependent variable

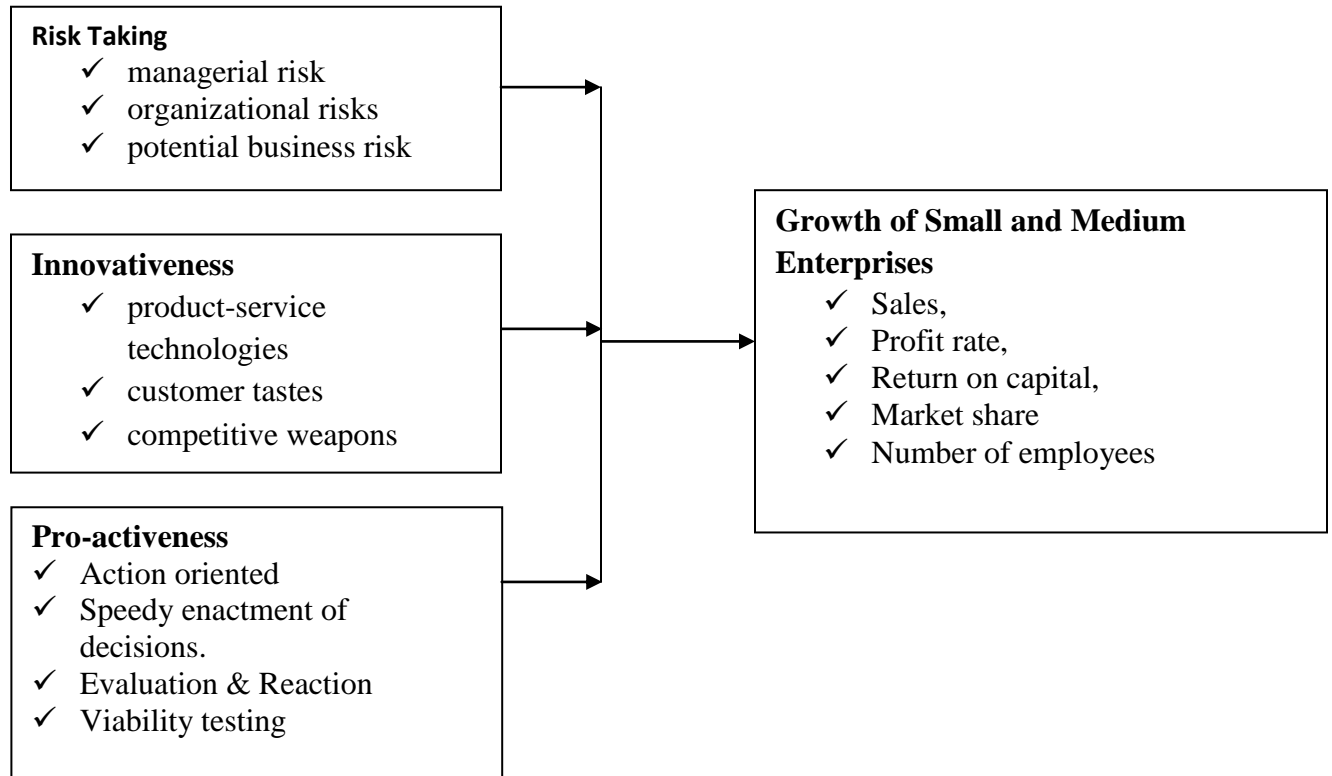


Figure 2.1 Conceptual Framework

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

Research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure (Kothari, 2004). This study will adopt a descriptive research design.

3.2 Population

The target population under study will be the registered SMEs in Nairobi County. This will comprise a total of all the 2248 registered SMEs with the ministry of trade and tourism Nairobi County.

3.3 Sample Design

This study will use a stratified random sampling method to select 10% of the target population. According to Mugenda and Mugenda (2003), a sample size of 10 to 30% is a good representation of the target population. The sample size of this study will therefore be 226 SME respondents as indicated in the table 3.2 below. The sampling frame will include: Food, Beverages, shoes, Timber, Wood products and Furniture, Pharmaceutical Smes, Metal and Allied Smes and Cloths Smes. The sample will be as follows:

Table 3.1 Sample Size

Category	Population	Ratio	Sample size
Food, Beverages Smes	480	0.1	48
Shoes Smes	338	0.1	34
Timber, Wood products and Furniture Smes	115	0.1	12
Pharmaceutical Smes	520	0.1	52
Metal and allied Smes	140	0.1	14
Cloths Smes	655	0.1	66
Total	2248	0.1	226

3.4 Data Collection

The study will use primary data collected using questionnaires. Questionnaires are a quick method of obtaining data as compared to other instruments. To achieve this, the researcher will maintain a register of questionnaires, tracking questionnaires that will be sent out, against those received. The questionnaire will be administered using a drop and pick later method to the SMEs owners and managers.

3.5 Data Analysis

In this study the collected data will be analyzed using of statistical package (Statistical Package for Social Sciences (SPSS) version 20). Both descriptive and inferential statistics will be used to analyze quantitative data. The analyzed information will then be presented in tables and figures. A multivariate regression analysis will also be carried out to determine the relationship between dependent variable and the independent variables.

The regression model to be used in the study will take the form below:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon \quad \text{equation (i)}$$

Where;

Y = the dependent variable (Growth of SMEs)

β_0 = Constant Term

β_1, β_2 and β_3 , = Are constants regression coefficients representing the condition of the independent variables to the dependent variables (Beta coefficients)

X_1 = Risk taking,

X_2 = Innovativeness,

X_3 = Pro-activeness

ε = (Extraneous) Error term explaining the variability of growth as a result of other factors not accounted for.

CHAPTER FOUR

DATA ANALYSIS, INTERPRETATION AND DISCUSSION

4.1 Introduction

This chapter contains data analysis and interpretation of research findings. It involves analysis of the respondents' demographic information as well as their responses to research questions on the role of entrepreneurial orientation on the growth of small and medium enterprises in Nairobi County. The data was examined, interpreted and the research findings used in answering the research questions. Data collected was presented using bar graphs, pie charts and tables.

4.2 Response rate

Out of the 126 small and medium enterprises sampled across Nairobi County, 98 (77%) returned the questionnaires. This percentage deemed adequate for the study and the researcher went ahead and analyzed the research findings.

4.3 Demographic Information

The study sought to establish the respondents background information including; age, gender, level of education, Structure of business ownership and the number employees in their business.

4.3.1 Age of the respondents

The study sought to establish the age of the respondents in order to determine if the age corresponded with their working experience and job description in the organization. This was important since it helped in determining if the respondents had enough working experience and

had experienced on the role of entrepreneurial orientation on the growth of small and medium enterprises. Figure 4.1 shows that majority (48%) of the respondents was in the age category of 30-40 years, 24% were in the age category of 20-30 years, 21% were in the age category of 40-50 years and 7% were in the age category of above 50 years.

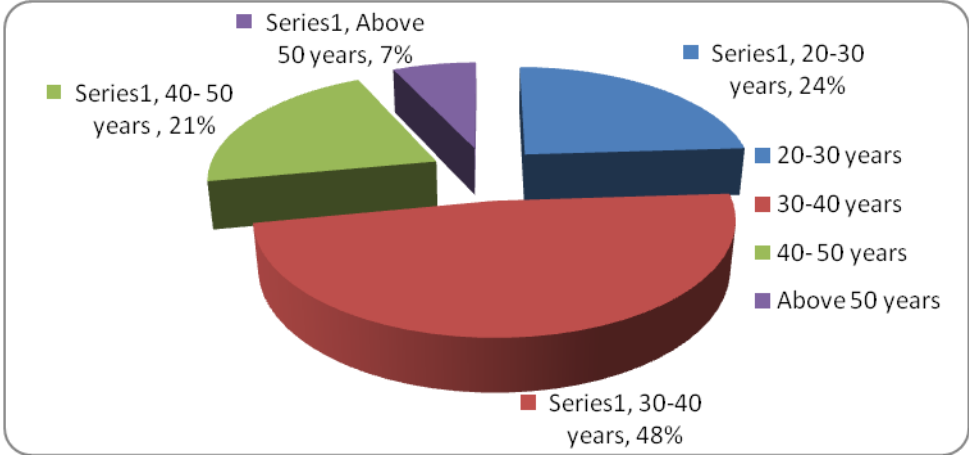


Figure 4.1 Age of the Respondents

4.3.2 Gender of the Respondents

It was found paramount to determine the respondents’ gender in order to ascertain whether there was gender parity in the positions indicated by the respondents. The findings of the study are displayed in figure 4.2. According to the analysis it was evident that majority of business owners were male which represented 57% while 43% were female.

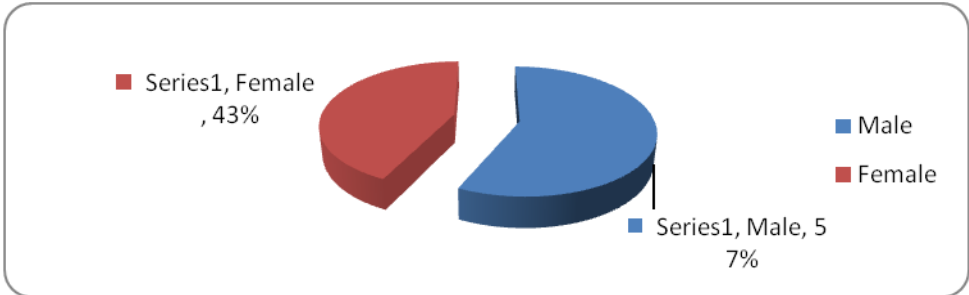


Figure 4.2: Respondents Gender

4.3.3 Respondents' Level Education

The study sought to establish the level of education of Nairobi County SMEs owners in order to ascertain how equipped they were with knowledge and skills relevant to understand the role of entrepreneurial orientation on the growth of small and medium enterprises. The findings as presented in figure 4.3; majority (45%) of the respondents had university qualification followed by 37% who had Certificate/ Diploma and 18% who had Secondary School certificates. These findings concurred with Joppe (2000) who did a similar study and found out that respondents which high education level have technical knowledge on the study problem assists in gathering reliable and accurate data on the problem under investigation. This demonstrated that most of the small and medium enterprises owners were qualified professionals with skills and technical knowledge on the problem under study and thus provided the study with reliable information on the role of entrepreneurial orientation on the growth of small and medium enterprises.

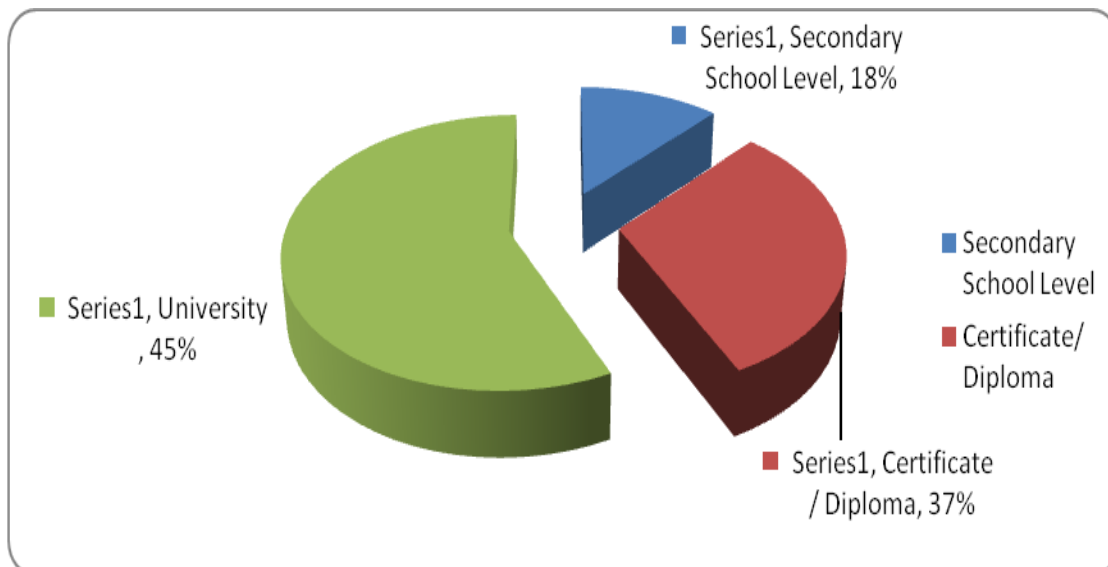


Figure 4. 3: Respondents Education Level

4.3.4 Number of years the business has been in operation

The study found it important to determine the years the respondents business has been operational in order to ascertain the extent to which their responses could be reliable when making the study conclusions. From the findings as Figure 4.4 indicates, majority (43%) indicated that their business has been in operation for a period of 6-10 years, 26% of the respondents indicated that their business has been in operation for a period of 11-15years, 24% of the respondents of the respondents indicated that their business has been in operation for a period of less than 5 years and finally 7% of the respondents of the respondents indicated that their business has been in operation for a period of 15 years and above. It can be concluded therefore that over 50% of the respondents had worked in the small and medium enterprises for a long time and thus understood technical issues on the role played by entrepreneurial orientation on the growth of SMEs.

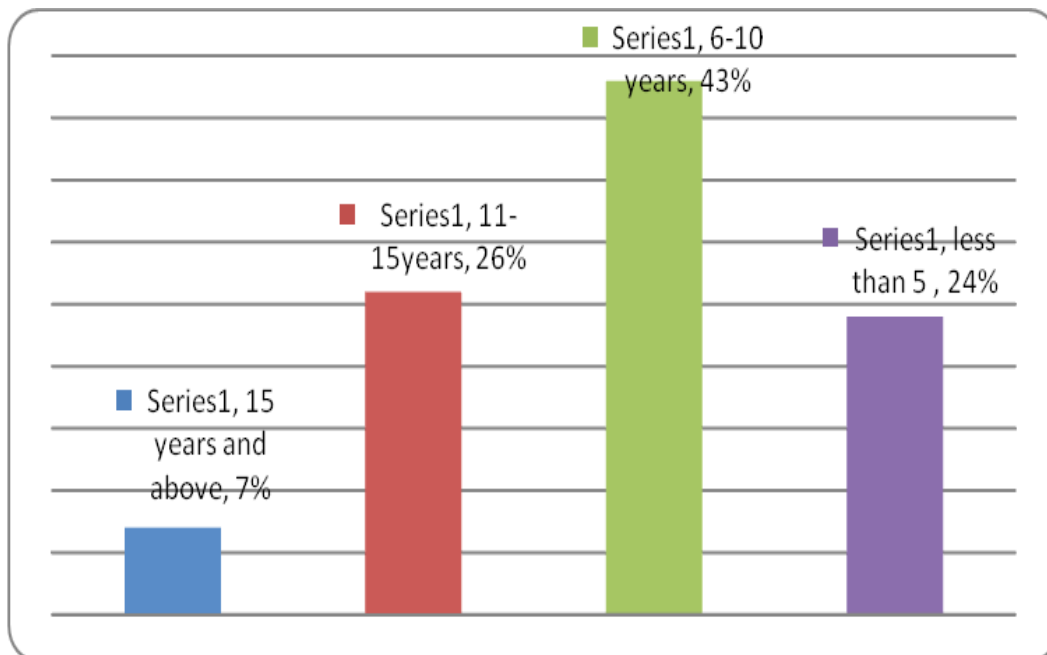


Figure 4.4: Number of years the business has been in operation

4.3.5 Form of the business ownership

The study sought to establish the Form of businesses held by Nairobi County SMEs owners. From the study findings presented in figure 4.5, majority 55% indicated sole trader, 34% indicated Jointly Owned while 11% indicated limited company as presented in the figure 4.5 below.

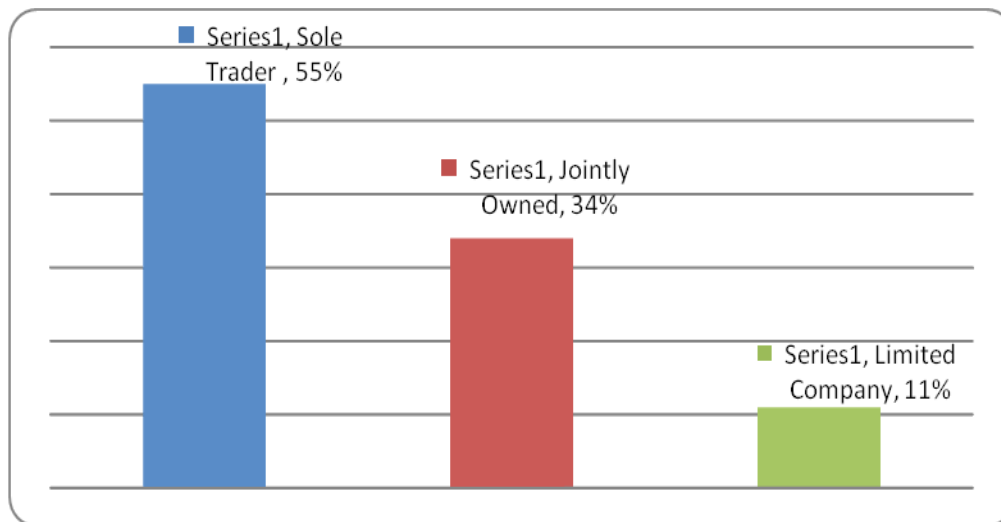


Figure 4.5: Form of the business ownership

4.3.6 Number employees in the business

The study sought to find the number of employee in the business of Nairobi SMEs. The findings were, 31% of the respondents indicated that they had 0 to 5 employees in their businesses, 21% of the respondents indicated they had 6 to 10 employees in their business, 16% of the respondents indicated that they had 11 to 15 employees in their business, 14% or the respondent indicated that they had 16 to 20 employees in their business and 8% indicated that they had over 20 employees in their business as shown in the figure 4.6 below.

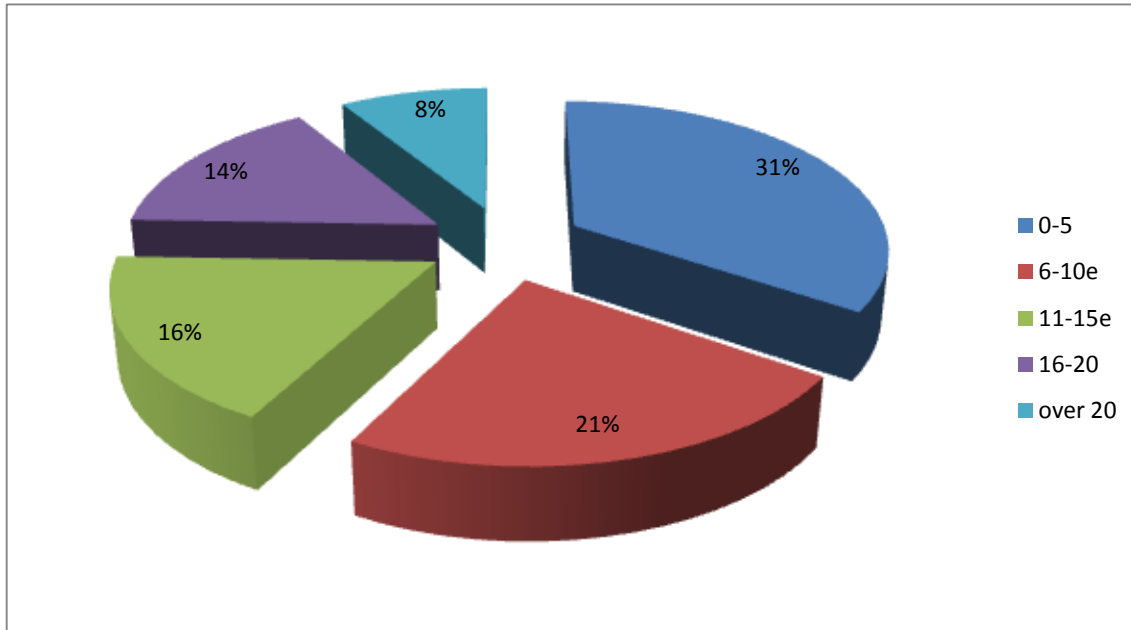


Figure 4.6: Number employees in the business

This analysis implies that a majority of SMEs in the study had less than 10 employees meaning they are small.

4.4 Entrepreneurial Orientation.

The objective of the study was to investigate the role of entrepreneurial orientation on growth of Nairobi County SMEs. Entrepreneurial orientation was measured in three dimensions i.e. Risk taking, Innovativeness and Pro-activeness. The respondents were asked to rate the extent to indicate the extent to which statements on the above dimensions applied in their business in a scale of 1 to 5 where 1 is to no extent, 2 is to a little extent, 3 is to a moderate extent, 4 is to a great extent and 5 is to a very great extent.

4.4.1 Risk Taking

The study sought to determine the extent to which respondents agree with statement regarding risk taking on the growth of Nairobi County SMEs.

Table 4.1: Extent to which indicators of risk taking apply to the firm's growth in Nairobi County

Indicators of risk taking	Mean	Std deviation
Our business commits a large portion of resources to ventures with uncertain outcomes	3.93	0.78
Our business takes in heavy borrowing from banks	4.37	0.63
Our business invests in high-risk products which promise high returns	3.89	0.89
Our business interact a lot with customers to explore new opportunities	4.11	0.80
We use risk management techniques to mitigate the risks in the business	4.04	1.06
In our business, we mitigate the consequences of risk-taking by forward planning and anticipating each outcome	3.78	1.01
We manage ourselves during stressful times of business	3.78	1.05

The results on table 4.1 indicate that respondents to a large extent agree that they commits a large portion of their resources to ventures with uncertain outcomes(mean 3.93); that their business takes in heavy borrowing from banks (mean 4.37); that their business invests in high-risk products which promise high returns (mean 3.89); that their business interact a lot with customers to explore new opportunities (mean 4.11); that they use risk management techniques to mitigate the risks in the business (mean 4.04); that In their business they reduce the consequences of risk-taking by forward planning and anticipating each outcome (mean 3.78),

and that they manage themselves during stressful times of business as indicated by a mean of 3.78.

From the above analysis it can be concluded that entrepreneurs in Nairobi country are risk takers in that they commit large portions of resources to ventures with uncertain outcomes, borrow heavily from banks, use risk taking management techniques to mitigate on business risks, invest in high risk products that promise high returns, as well as managing themselves during stressful times of the business.

4.4.2 Innovativeness

Second study sought to determine the extent to which business owners agree with statement regarding innovativeness on the growth of Nairobi County SMEs.

Table 4.2Extent to which indicators of innovativeness apply to the firm’s growth in Nairobi County

Indicators of innovativeness	Mean	Std deviation
Innovativeness has enabled market penetration of small medium enterprises	4.07	0.92
Our business support creativity and experimentation in introducing new products	3.85	1.13
Technological ideas in small medium enterprises has brought new product/ services	3.59	1.19
Our business encourages the developing new innovation technological processes	3.89	0.85
Our business encourages incremental improvements in products and services	3.89	0.89
Innovation generate significant new value for customers	3.59	1.08
The business initiates innovations in every situation before the competitors responds	3.26	0.98
Our business is creative in creating and controlling resources	3.81	1.08

The results on table 4.2 indicate that Innovativeness has enabled market penetration by small and medium enterprises (mean 4.07); that their business support creativity and experimentation in introducing new products (mean 3.85); that Technological Ideas in small medium enterprises has brought new products/services (mean 3.59); that their business encourages developing new innovative technological processes (mean 3.89); that their business encourages incremental improvements in products and services (mean 3.89); that Innovation generate significant new value for customers (mean 3.59); that their business initiates innovations in every situation before the competitors responds (mean 3.26); and that their business is creative in creating and controlling resources as indicated by a mean of 3.81.

From the above analysis it can be concluded that entrepreneurs in Nairobi County are innovative in that they support creativity and experimentation in introducing new products, they apply innovation when penetrating the market, embrace technological ideas to come up with new products, creatively controls their resources, encourage incremental improvements in products and services and create significant new value for their customers through innovation.

4.4.3 Pro-activeness

Thirdly the study sought to determine the extent to which respondents agree with statement regarding pro-activeness on the growth of Nairobi County SMEs.

Table 4.3 Extent to which indicators of pro-activeness apply to the businesses growth of Nairobi County SMEs

Indicators of pro-activeness	Mean	Std deviation
We identify needs of current and potential customers	4.03	0.93
Our business reallocates its resources to deal with emerging opportunities and threats	3.74	1.09
Our business identifies and monitors market trends to predict future trends	3.40	1.18
Our business adopts creative methods of running business ahead of our competitors	3.85	0.86
Our business is able to anticipate and respond to the emerging needs of customers	4.03	1.01
Our business harness on strong research and development capabilities in making future decisions	3.80	0.94
The business continually seeks opportunities (new market and new customers) related to the present trends	3.74	1.09
Our business anticipates change and generate first-mover advantages	4.00	1.14

The results on table 4.3 indicate that their businesses identify the needs of current and potential customers (mean 4.03); that their business reallocates its resources to deal with emerging opportunities and threats (mean 3.74); that their business identifies and monitor current market trends to predict future trends (mean 3.40); that their business adopts creative methods of running business ahead of its competitors (mean 3.85); that their business is able to anticipate and respond to the emerging needs of customers (mean 4.03); that their business harnesses the strong research and development capabilities in making future decisions (mean 3.80); that their businesses continually seeks opportunities (new market and new customers) related to the present needs(mean 3.74) and that their business anticipates change and generate first-mover advantages as indicated by a mean of 4.00.

From the above analysis it can be concluded that entrepreneurs in Nairobi county are pro-active in that they identify the needs of current and potential customers, they reallocate resources to deal with emerging opportunities, they anticipate change and generate first mover advantage for their products, respond to emerging needs of customers as well as monitor trends to predict future demands.

4.5 Entrepreneurial Orientation and Growth of SME's in Nairobi County

The effect of Entrepreneurial Orientation growth of SMEs in Nairobi County was established using multiple linear regression analysis. The results are presented in table 4.4, 4.5 and 4.6.

Table 4.4: Model Summary

Model	R	R Squared	Adjusted R Squared	Std. Error of the estimate
1	0.853	0.728	0.770	1.770

- a. Predictors: (Constant), Risk taking, Innovativeness, and Pro-activeness.
- b. Dependent variable: Growth in number of employees
- c.

As shown in the Table 4.4, The adjusted R^2 was strong and significant (adjusted $R^2 = 0.770$, $F = 13.366$, $p < 0.05$) The results imply that 77% of the variations in the growth of employees in Nairobi County SMEs are due to change in risk taking, innovativeness, and pro-activeness. 23% are unexplained; therefore further studies should be done to establish the other factors (23%) affecting growth of number of employees in small and medium enterprises in Nairobi County.

Table 4.5: Summary of ANOVA results of the regression analysis between growth of small and medium enterprises and predictor variables

Model		Sum of Squares	Df	Mean Square	F	Significance
1	Regression	172.152	28	43.038	13.366	0.000
	Residual	64.4	98	3.220		
	Total	236.552	126			

- a. Predictors: (Constant), Risk taking, Innovativeness, and Pro-activeness
- b. Dependent Variable: growth in number of employees

The probability value of 0.000 shown in table 4.5 indicates that the regression relationship was highly significant in predicting how Risk taking, Innovativeness, and Pro-activeness influenced growth of small and medium enterprises. The F calculated at 5 percent level of significance was 13.366 since F calculated is greater than the F critical (value = 2.87), indicating that the overall model was significant.

Table 4.6: Coefficients of regression equation

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.329	0.473		2.825	0.0105
Risk taking	0.638	0.172	0.205	3.709	0.0139
Innovativeness	0.576	0.155	0.693	3.716	0.0136
Pro-activeness	0.605	0.187	0.222	3.235	0.0415

a. Predictors: (Constant), Risk taking, Innovativeness and Pro-activeness

b. Dependent Variable: growth in number of employees

The regression findings in table 4.5 has established that taking all factors into account (Risk taking, Innovativeness, and Pro-activeness) constant at zero growth of small and medium enterprises will be 1.329. The findings presented shows that taking all other the independent variables at zero, a unit increase in risk taking would lead to a 0.638 increase in growth of small and medium enterprises and a unit increase in innovativeness would lead to a 0.576 increase in the growth of small and medium enterprises. Further, the findings shows that a unit increase in pro-activeness would lead to a 0.605 increase in growth of Nairobi county SMEs.

$$Y = 1.329 + 0.638X_1 + 0.576X_2 + 0.605X_3$$

4.6 Discussion

This study aimed at investigating the role played by entrepreneurial orientation on the growth SMEs in the County of Nairobi. Analysis on the research data pertaining entrepreneurial orientation on the growth of small and medium enterprises revealed that most business persons operating small and medium enterprises need to have specific organizational-level behaviors to perform risk-taking and self-directed activities so as to engage in innovation as well as react aggressively and proactively to outperform the competition in the market place. The study also revealed that entrepreneurial orientation represents the policies and practices that provide a basis for entrepreneurial decisions and actions". In other words, it was found that entrepreneurial orientation helps small and medium enterprises owners to act entrepreneurially.

The findings revealed that innovativeness influenced entrepreneurial orientation in terms of growth of small and medium enterprises in Nairobi County to a large extent, since it helped in developing new products making venturing into new markets possible and implementing new technologies in their operation functions which leads to increased growth. These echoed findings by Lumpkin and Dess (1996), who found out that innovativeness, reflects a tendency for an enterprise "to engage in and support new ideas, novelty, experimentation, and creative processes that may result in new products, services, or technological processes". Innovation is crucial in pursuing opportunities and so is therefore important EO component.

As discussed in the literature review, by Miller and Friesen (2008) found that risk-taking as "the degree to which managers are willing to make large and risky resource commitments, that is, those which have a reasonable chance of costly failures". The above statement is confirmed by

research findings of this study in which most of the respondents believed their business commits a large portion of resources to ventures with uncertain outcomes; that their business takes in heavy borrowing from banks; that their business invests in high-risk products which promise high returns; that Our business interact a lot to customers to explore new opportunities; that they use risk management techniques to mitigate the risks in the business; that In their business, we minimize the consequences of risk-taking by planning ahead and preparing for each outcome; that they manage ourselves during stressful times of business and that before they make a risky business decision we determine whether it is the right decision to make.

As discussed in the literature review, pro-activeness as "taking initiative by identifying and pursuing new opportunities related to future demand and by exploiting new markets". It can also be a distinct entrepreneurial activity to antedate imminent prospects, in terms of products or market as well as in technology (Schillo, 2011). That was the reason as to why the research findings revealed that pro-activeness affects growth of Nairobi County SMEs as respondents agreed to the statement that they identify needs of current and potential customers; that their business reallocates its resources to deal with emerging opportunities and threats, that their business identifies and monitor market trends to predict future trends, that their business adopts creative methods of running business ahead of its competitors, that their business is able to anticipate and respond to the emerging needs of customers, that their business harnesses the strong research and development capabilities in making future decisions; that their business continually seeks opportunities (new markets and new customers) related to the In terms of magnitude, the findings indicated that risk taking has the highest effect on growth of small and medium enterprises followed by Pro-activeness, then innovativeness had the least effect on

growth of SMEs. All the variables were found to be significant as their P-values were less than 0.05.

The established optimal model for the study was: present needs and that their business anticipates change and generate first-mover advantages.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The chapter gives a summary of the findings on the role of entrepreneurial orientation on the growth of Nairobi County SMEs. The chapter draws the study conclusions and discusses recommendations and suggestions for further studies.

5.2 Summary of the study findings

The main objective of this study was to establish the role of entrepreneurial orientation on the growth of Nairobi County SMEs. The study found out that entrepreneurial orientation helped Nairobi County SMEs realize increased growth. The study established that the major factors that influenced growth of small and medium enterprises in Nairobi County included; risk taking, innovativeness and pro-activeness.

The study findings revealed that risk taking influenced growth of Nairobi SMEs to a large extent as the respondents agreed to the statement that their business commits a large portion of their resources to ventures with uncertain outcomes, that their business takes in heavy borrowing from banks; that their business invests in high-risk products which promise high returns; that Our business interact a lot with customers to explore new opportunities; that they use risk management techniques to mitigate the risks in the business; that In their business, they reduce the consequences of risk-taking by forward planning and anticipating each outcome, they manage themselves during stressful times of business and that Before they make a risky business decision they determine whether it is the right decision to make.

The study found out that innovativeness influenced the growth in Nairobi County SMEs to a large extent since Innovativeness has enabled market penetration of small medium enterprises; that their business encourage creative ideas and experimentation when introducing new products; that Technological Ideas in small medium enterprises has brought new products/services; that their business encourages developing new technological processes; that their business encourages incremental improvements in products and services; that Innovation generate significant new value for customers; that their business initiates innovations in most situation ahead of their competitors and that their business are creative in creating and controlling resources.

The study identified that pro-activeness influenced the growth in Nairobi County SMEs to a large extent since the business owners identify needs of current and potential customers; that their business reallocates its resources to deal with emerging opportunities and threats; that their business identifies and monitor market trends to predict future trends; that their business adopts creative methods of running business ahead of its competitors; that their business is able to anticipate and respond to the emerging needs of customers; that their business harnesses the strong research and development capabilities in making future decisions; that their business continually seeks opportunities (new markets and new customers) related to the present needs and that their business anticipates change and generate first-mover advantages.

5.3 Conclusions

In regard to innovativeness the study concludes that innovativeness is a major contributor towards realization of increased growth of small and medium enterprises. Innovativeness determines how unique and competitive a product or a service is in the market, this plays a key role in determining the rate of growth SMEs would realize. Innovativeness helps the small and medium enterprises to adopt new technology and develop new products that lead to increased customer base hence leading to increased growth.

With regard to risk taking the study concludes that risk taking involves engaging in calculated and manageable risks in order to obtain benefits, rather than taking daring risks which are detrimental for small and medium enterprises growth in addition entrepreneurial business' propensity to take risks is between low and moderate levels. Business that adopt a modest level of risk taking are high performers when compared to those business that assume very high or very low levels of risk taking. In small and medium enterprises Risk taking entails a willingness to allocate significant resources to those opportunities having a reasonable probability of failure and willing to break away from that known and tried path.

On Pro-activeness the study concludes that small and medium enterprises owners need to be take initiative and anticipate future demands while pursuing new opportunities and participating in emerging markets. Since being a proactive business is demonstrated by an awareness and responsiveness to market signals. It can also be concluded that pro-activeness is an opportunity seeking and forward-looking perspective that is characterized by introduction of new products

and services ahead of the competitions and acting in anticipation of future demands of the business.

5.4 Limitations of the study

The study concentrated on the role of entrepreneurial orientation on growth of small and medium enterprises in Nairobi County which has a unique business environment compared to other counties, different results would have been expected if a wider area was investigated that would be more representative of Nairobi county SMEs. Some of the respondents completed the questionnaires in a hurry because of too many commitments at their work place; hence some information given could be unsatisfactory. The study focused on three variables i.e. risk taking, innovativeness, and pro-activeness, whereas other intervening factors such as Government policies, political influence, environmental factors among others were not covered in this study because they were not within the scope of study of the researcher.

Moreover, the study's reliance on questionnaire presented yet another limitation to the study since the true positions would not be proven with certainty. This, hence, made the study's findings and generalization a subject for further testing. Finally, the study collected data from only a small representation of small and medium enterprises in Nairobi County, leaving out another set of equally significant population. It is thus acknowledged that their inclusion would have significantly varied some of the study's findings.

5.5 Recommendations for policy and practice

To improve on innovativeness and influence realization of increased growth of small and medium enterprises, the study recommends that SMEs owners should invest in research and development and come up with new products that would be competitive in the target market. The small and medium enterprises should also venture into new market and re-engineer business processes through business process outsourcing. The small and medium enterprises should also employ effective reward management systems in order to attract and retain professional staff with creative and innovative ideas. The small and medium enterprises should also employ effective talent management practices in order to identify staff with unique capabilities that would help small their enterprises in innovating new products and processes.

On risk taking the study recommends that Entrepreneurs should be positive thinkers on risks. Risk taking ability of an entrepreneur causes the business gain high return on investment. The more the risky the venture is the higher the returns it creates at the same market place. Managers of SMEs should recognize the holistic approach toward managing business risks so as to ensure effective risk management. Factors such as commitment and support from top management, communication, culture, information technology, organization structure, training and trust must serve as a guide to all managers in taking risk management decisions. SMEs should get expertise on risk management practices to train managers through periodic workshops and conferences.

Finally on pro-activeness Government and business consultants should make their attention in order to stimulate entrepreneurs to use proactive method in their endeavors. Business owners of small medium enterprises should be able to anticipate risk as the key for first mover advantage

since there is importance of being first-mover or being pioneer. The business moving first can gain extraordinary benefits by being a pioneer and forming brand image to profit from these opportunities.

5.6 Suggestion for Further Studies

The study recommends that a similar study should also be done on other counties since their operations are different from those studied in this study. Further studies should be done on other counties other than Nairobi County, to find out whether it will yield the same information.

Studies could also be done on effect of Entrepreneurial orientation on business performance in-terms of sales growth and profitability.

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APPENDICES

Appendix I: Introduction Letter

Dear Sir/Madam,

RE: REQUEST TO COLLECT DATA

I am a post graduate student at University of Nairobi pursuing a Masters Degree in Entrepreneurship and innovation Management in University of Nairobi Pursuant to the pre-requisite course work; I am currently conducting a research project on: The role of entrepreneurial orientation on the growth of small and medium enterprises in Nairobi County. The focus of my research will be SMEs operating in Nairobi and this will involve use of questionnaires administered to owners and managers of the SMEs.

I kindly seek your authority to conduct the research at your firm through questionnaires and use of any other relevant documents. I have enclosed an introductory letter from the University. Your assistance is highly valued. Thank you in advance.

Yours faithfully,

Bernard Kamendi

Appendix II: Questionnaire

SECTION 1: DEMOGRAPHICS

Please read each question carefully and follow the instructions. Please answer all questions by ticking the number in the box that best describes your answer. All individual answers will be kept confidential.

Q1.1 Please indicate what is your age?

- | | |
|-------------------------|---|
| Below 20 Years | 1 |
| Between 20 to 30 Years | 2 |
| Between 30 and 40 Years | 3 |
| Between 40 and 50 Years | 4 |
| Over 50 Years | 5 |

Q1.2 Please indicate your gender (Please circle an appropriate Box)

- | | |
|--------|-----|
| Male | () |
| Female | () |

Q1.3 What is your level of education?

- | | |
|------------------------|---|
| Secondary School Level | 1 |
| Certificate/ Diploma | 2 |
| University level | 3 |
| Post graduate level | 4 |

Q1.4 Please indicate the number of years this firm has been in operation ----- years

Q1.5 What is Structure of your firm?

- Sole Trader 1
- Jointly Owned 2
- Limited Company 3
- Other 4

SECTION 2: ENTREPRENEURIAL ORIENTATION

1. Rate the extent to which the following statements about risk-taking apply in your organization with regard to entrepreneurial orientation. Use a scale of 1 to 5 where 1 is to no extent, 2 is to a little extent, 3 is to a moderate extent, 4 is to a great extent and 5 is to a very great extent

RISK TAKING

Our business commits a large portion of resources to ventures with uncertain outcomes	1	2	3	4	5
Our business takes in heavy borrowing from banks	1	2	3	4	5
Our business invests in high risk products which promise high returns	1	2	3	4	5
Our business interact a lot with customers to explore new opportunities	1	2	3	4	5
We use risk management techniques to mitigate the risks in the business	1	2	3	4	5
In our business, we mitigate the consequences of risk-taking by forward planning and anticipating each outcome	1	2	3	4	5
We manage ourselves during stressful times of business	1	2	3	4	5
Before we make a risky business decision we determine whether it is the right decision to make	1	2	3	4	5

INNOVATIVENESS

2. To what extent do the following aspects of innovativeness apply in your organization with regard to entrepreneurial orientation? Use a scale of 1 to 5 where 1 is to no extent, 2 is to a little extent, 3 is to a moderate extent, 4 is to a great extent and 5 is to a very great extent

Innovativeness has enabled market penetration of small medium enterprises	1	2	3	4	5
Our business support creativity and experimentation in introducing new products	1	2	3	4	5
Technological ideas in small medium enterprises has brought new products/ services	1	2	3	4	5
Our business encourages the developing new innovation technological processes	1	2	3	4	5
Our business encourages incremental improvements in products and services	1	2	3	4	5
Innovation generate significant new value for customers	1	2	3	4	5
The business initiates innovations in every situation before the competitors responds	1	2	3	4	5
Our business is creative in creating and controlling resources	1	2	3	4	5

PROACTIVENESS

3. To what extent do the following aspects of Pro-activeness apply in your organization with regard to entrepreneurial orientation? Use a scale of 1 to 5 where 1 is to no extent, 2 is to a little extent, 3 is to a moderate extent, 4 is to a great extent and 5 is to a very great extent

We identify needs of current and potential customers	1	2	3	4	5
Our business reallocates its resources to deal with an emerging opportunity and threat	1	2	3	4	5
Our business identifies and monitors market trends to predict future trends	1	2	3	4	5
Our business adopts creative methods of running business ahead of its competitors	1	2	3	4	5
Our business is able to anticipate and respond to the emerging needs of customers	1	2	3	4	5
Our business harnesses the strong research and development capabilities in making future decisions	1	2	3	4	5
The business continually seek opportunities (new market and new customers) related to the present needs	1	2	3	4	5
Our business anticipates change and generate first-mover advantages	1	2	3	4	5

Growth of Enterprise

What are the number employees in your firm?

Number of employees	Year 2012	Year 2013	Year 2014	Year 2015
0-5				
5-10				
11-15				
16-20				
Over 20				

THANK YOU FOR YOUR TIME AND COPERATION!!