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LIST OF ABBREVIATIONS

AFRODAD	African Forum and Network on Debt and Development
ANOVA	Analysis of Variance
BEST	Business Environment Strengthening for Tanzania
COMMESA	Common Market for Eastern and Southern Africa
CRDB	Cooperative and Rural Development Bank
DIT	Department of Industry and Trade (South Africa)
DMRT	Duncan's Multiple Range Test
DRC	Democratic Republic of Congo
EAC	East African Community
ERP	Economic Recovery Program
ESAP	Economic and Social Adjustment Program
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IFM	International Monetary Fund
MFEA	Ministry of Finance and Economic Affairs (Tanzania)
NEDF	National Entrepreneurship Development Fund
NISS	National Informal Sector Survey
NSIC	National Small Industries Corporation
OPEC	Organization of Petroleum Exporting Countries

RISS	Rural Informal Sector Survey
ROA	Return On Asset
ROI	Return On Investment
RTC	Regional Trading Corporation (Tanzania)
SADC	Southern Africa Development Community
SELF	Small Entrepreneurs Loan Facility
SER	Strategic Entrepreneurial Response
SIDO	Small Industries Development Organization
SOE	State Owned Enterprises
TNBC	Tanzania National Business Council
UK	United Kingdom
UN	United Nations
UNIDO	United Nations Industrial Development Organization
URT	United Republic of Tanzania
USA	United States of America
VIF	Variance Inflation Factor
WB	World Bank

CHAPTER LAYOUT – CHAPTER ONE

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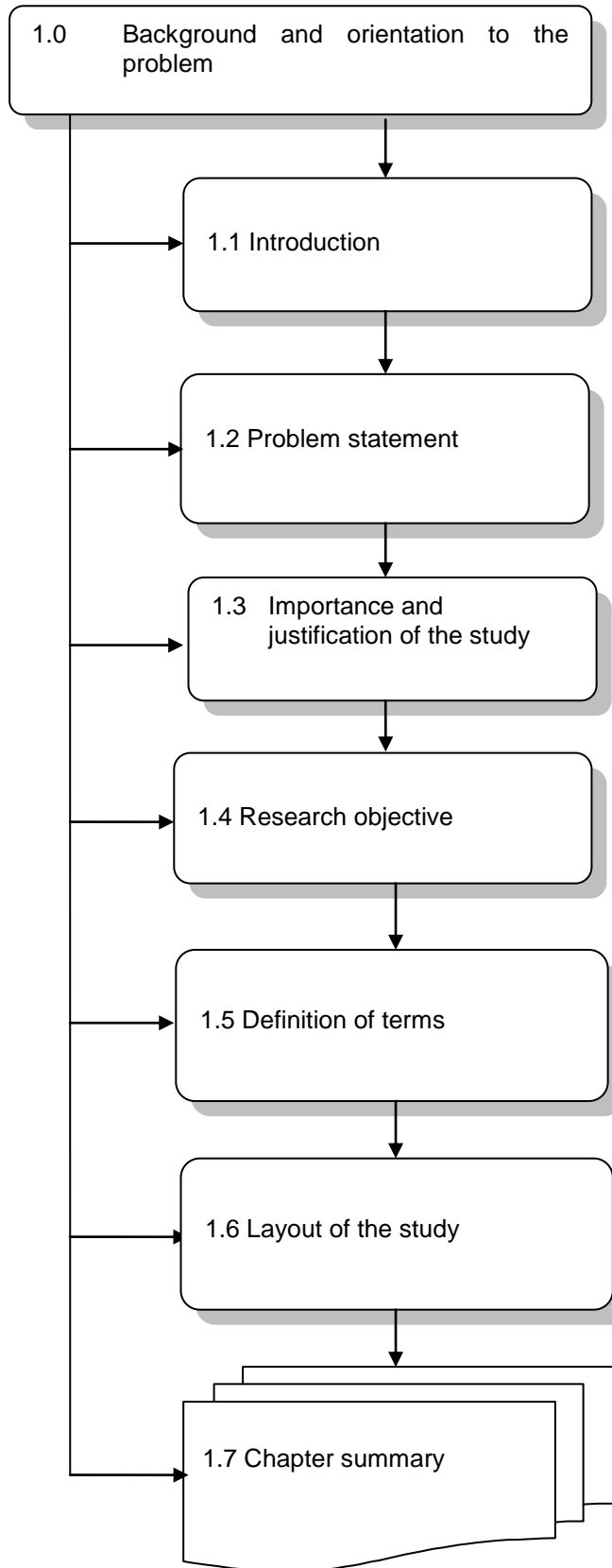
CHAPTER ONE

1 BACKGROUND AND ORIENTATION OF THE PROBLEM

1.1 INTRODUCTION

The lowering or removal of trade barriers has increased internationalization of markets for sales and purchasing, and subsequently enhancing the entry of new competitors into formerly protected domestic markets (Hitt, Hoskisson & Ireland, 2007:7; Hitt & Reed, 2000:27). These dynamics have created huge pressure on SMEs due to regular changes in customers' taste and preferences, which influences purchasing behaviour. In this regards, involvement of SME in the open market is not a matter of choice, it is a question of struggle for survival, regardless of whether SME operate in global or local markets.

It is undisputable truth that SMEs face enormous pressure of competition. It is no longer possible to act in the marketplace without taking into account the risks and opportunities presented by foreign and/or global competition (Hitt *et al.,* 2007:7). A number of studies indicate that SMEs continue losing customers as a result of steep competition, posed by competitors (Ellis & Mdoe, 2003:1378; Kristiansen, Kimeme, Mbwambo, & Wahid*,* 2005:368). This implies that among other reasons, SME's are not competitive enough to face challenges posed by market rivals. In order to penetrate new markets and enhance competitiveness in local markets, enterprise performance remains a crucial factor for the survival of SME's in the competitive market environment. The literature identified strategic entrepreneurship as an appropriate strategic orientation to attain superior performance and wealth creation (Hitt, Ireland, Camp, & Sexton, 2002:2; Ireland & Webb, 2009:469).

According to Ireland and Webb (2007b:59) and Kuratko and Audretsch (2009:2) strategic entrepreneurship is the intersection of entrepreneurship and strategic management that foster simultaneously opportunity seeking and advantage seeking behaviours aimed at continuously exploring and exploiting opportunities while sustaining competitive advantage for the future. Ireland, Hitt and Sirmon (2003a:967) developed a model of strategic entrepreneurship that integrates a resource based view of firm, human capital, social capital, organizational learning, and creative

recognition perspectives. The model has six building blocks that lead to a firm's competitive advantage which subsequently create wealth. The identified building blocks are entrepreneurial mindset, entrepreneurial culture, and entrepreneurial leadership, managing resources strategically, applying creativity and developing innovation. This implies that in a dynamic and competitive environment characterized by uncertainties, firms of all sizes use entrepreneurial mindsets for their advantage (McGrath & MacMillan, 2000:1; Kuratko & Audretsch, 2009:1), coupled with the entrepreneurial culture and leadership, firms are able to manage resources strategically of which through applying creativity and developing innovation firms develop competitive advantage that leads to performance.

While there is consensus among scholars on appropriateness of strategic entrepreneurship on firms attaining competitive advantage and subsequently create wealth, the challenge is how to simultaneously combine opportunity seeking and advantage seeking behaviours (Ireland & Webb, 2007b:55). In the light of this argument, the proposed theoretical conceptual model of strategic entrepreneurship is debatable on whether the proposed constructs are adequate to foster simultaneous opportunity and advantage-seeking behaviours that enhance sustainable competitive advantage of small firms. Schindehutte and Morris (2009:242) supporting this argument suggest that "strategic entrepreneurship is more than intersection of strategic management and entrepreneurship and treat this fusion as a contested idea and not settled issue". This argument presents conceptual gaps of strategic entrepreneurship and opens up more opportunities for further research to select and test more constructs that explain a causal–effect relationship in the domain of strategic entrepreneurship. In view of this argument, Monsen and Boss (2009:74) suggest that entrepreneurial orientation is more relevant and well placed to replace dimension of applying creativity and developing innovation in the model of strategic entrepreneurship.

However, the implied entrepreneurial orientation is based on Miller's (1983:771) conceptualization that has only three dimensions namely innovation, risk taking, and pro-activeness. According to Lumpkin and Dess (1996:139) entrepreneurial orientation has five dimensions namely innovation, risk taking, pro-activeness, autonomy, and competitive aggressiveness. In this view, the initial conceptualization

of entrepreneurial orientation in the model of strategic entrepreneurship did not cover the full spectrum of the entrepreneurial orientation construct. It fell short of two dimensions namely autonomy and competitive aggressiveness, of which this study intends to fill the gap by capturing the five dimensions of entrepreneurial orientation.

Central to strategic entrepreneurship is the opportunity seeking behaviour and advantage seeking behavior (Ireland, Hitt. & Sirmon, 2003a:963; Ketchen, Ireland, & Snow, 2007:371; Ireland & Webb, 2009a:469). Opportunity seeking behaviour is a tendency of identification and or creation of entrepreneurial opportunities. Advantage seeking behaviour is a tendency of sustaining competitive advantage through continuous exploitation of opportunities (Morris *et al.,* 2008:81; Ireland & Webb, 2007b:50). For the opportunity, being gap left in the market by those currently operating in it (Wickham, 2006:434), to comprehend, it requires a system to monitor market dynamics, understand customers,' and competitors' behaviors, to identify unsaved market demands as well as prospects demands of consumers, based on their daily challenges. As such, this information provides a pool of opportunities that entrepreneurial oriented firms can use to respond accordingly in order to offer products and services aimed at filling the identified gap.

This study considers that to successfully address the challenges of simultaneous combining the opportunity seeking behaviours and advantage seeking behaviours, entrepreneurs in SMEs should consider adopting entrepreneurial strategies such as market orientation and entrepreneurial orientation to respond to challenges posed by the dynamics of global business environment. The market orientation in this case is suited to generate market intelligence aimed at responding to the customer's demands (Kohli & Jaworski, 1990:3) and fill market gaps left by current players/competitors. A sustained cultural behaviour of market orientation is likely to provide sustainable sources of opportunities oriented to customers' needs of which entrepreneurial oriented firms proactively respond to seize these opportunities to address current, future and latent needs of customers. The continuous identification of opportunities and successful exploitation of opportunities contribute to build competitive advantage of firm of which through competitive aggressive incumbent has to defend against the rivals (Lumpkin & Dess, 2001:446).

However, the literature on strategic entrepreneurship put more emphasis on strategic management and entrepreneurial posture (Ireland *et al.,* 2003a:966; Hitt, Ireland, Camp & Sexton, 2001:480; Ireland & Webb, 2007b:50) and underplayed the role that market orientation can contribute on opportunity seeking that subsequently account on competitive advantage that leads to firm's performance. This study considers it appropriate to include market orientation and entrepreneurial orientation to the model of strategic orientation to bridge the gap of simultaneous opportunity seeking and advantage seeking behaviours, which subsequently enhance a firm's performance.

While entrepreneurial strategies such as market orientation and entrepreneurial orientation have been studies in and reported to foster performance, several other studies have reported equivocal findings. For example, while some studies reported positive relationship between entrepreneurial orientation and firm performance (Keh, Nguye & Ng, 2007:605; Kraus, Fredrich, & Unger, 2005:335; Wiklund & Shepherd, 2005:85), other studies failed to find significant relationships or find only weak or partial relationships (Lumpkin & Dess, 2001:445; Walter, Auer & Ritter, 2006:557). A similar trend was revealed on the relationship between market orientation and firm performance. While several studies reported strong and positive relationship between market orientation and firm performance (Farrell, 2000:215; Harris & Ogbonna, 2001:163; Kara, Spillan & DeShields, 2005:112; Jaworski & Kohli, 1993:63; Langerak, 2003:109; Li, Zhao, Tan, & Liu, 2008:128; Li, Sun, & Liu, 2006:107; Narver & Slater, 1990:32), other studies failed to establish such a relationship (Diamantopoulos & Hart, 1993:115; Greenley, 1995:8; Han, Kim & Srivastava,1998:38; Harris, 2001:33; Langerak, Hultink, & Robben, 2004:88; Ngai & Ellis, 1998:132;). The inconsistence of the findings raised questions of whether the entrepreneurial orientation and market orientation alone are adequate to enhance firm performance and this call for further investigation to establish appropriate factors influencing SME performance before concluding that market orientation and entrepreneurial orientation alone are important in firm performance.

Upon further investigation, the nature of the test strategies mentioned above, it is clear that the implementation of these strategies requires reasonable investment of resources (Covin & Slevin, 1991:15). However, SMEs' are always constrained with resources (Kropp & Zolin, 2005:1; Verhees & Meulenberg, 2004:137) to carry out

their day to day duties, which include the execution of strategies. This view is shared by Rutashobya and Jaensson (2004:161) that small firms lack financial resources, management and marketing skills, and market information to withstand competition in the fast changing environment. Moreover, Kristiansen (2004:379) point out that the main problems small-scale enterprises face in developing countries, are not their "small size or their informal mode of operation, but rather their isolation, the geographical as well as social segregation that hinders access to larger markets, information, financial resources and institutional support".

Kristiansen and Mbwambo (2003:377) reported earlier in their study on the garment industry, that innovative entrepreneurs connected to information sources, perform better than colleagues who are without access to information and skills for adaptation to changes in consumer preferences and competitive environment. Since innovation and access to information require resources which are limited in SMEs (Kropp & Zolin, 2005:1; Verhees & Meulenberg, 2004:137), networking is considered appropriate to be included in this study with the view that it will provide a competitive advantage to small firms because of possibilities of resource sharing and learning among network partners that could enable them to execute the mentioned strategies and minimize the disadvantages mentioned above.

Networking is the mutual relationship that involves a firm with its customers, suppliers and competitors amongst others and often extends across industry, geographic, political and cultural boundaries (Hitt *et al.,* 2001:481). The relationship between networking and a firm's performance was studied, but it reported inconsistence findings. For example, while George, Wood and Khan (2001:280) and Watson (2007:854) reported significant positive relationships, other scholars failed to find such relationships, or reported only weak or partial relationships (Aldrich & Rees, 1993:327; Cooper, Gimeo-Gascon & Woo, 1994:390; Havness & Senneseth, 2001:299). However, other scholars have suggested that networking often raise the possibility of losing strategic information and competence to partners consequently, some networking relationships may not be beneficial (Hitt *et al*., 2007:240; Kale*, Sing, & Perlmutter, 2000:233; Semrau & Werner, 2012:160). In this view, this study argues that networking is likely to be beneficial if partners are capable to establish sustainable relationships that complement resources and capability needs.

According to Walter *et al.* (2006:541) such ability is the networking capability which is the ability to initiate, maintain, and utilize inter-organizational relationships with various external partners to enhance performance. In this regard, this study includes networking capability based on the relevance of the strategy to SME performance.

Critical review of the three strategies; market orientation, entrepreneurial orientation, and networking capability represent response posture to competitors and opportunities to foster simultaneous both opportunity seeking- and advantage seeking behaviours. Kohli and Jaworski (1990:3) presented the behavioural perspectives of the market orientation to refer "organizational-wide generation of market intelligence pertains to the current and future customer needs, dissemination of intelligence across department and organizational-wide responsiveness to the intelligence" in the process of searching for market opportunities. Narver and Slater (1990:21) presented the cultural perspective of the market orientation that is focused on customers, competitors, and inter-functional coordination which build an organizational culture that most effectively and efficiently creates behaviors for the creation of the superior value for buyers and thus continuous superior performance for the business rivals. In this context, this study suggest that the cultural and behavioural market orientation perspectives are geared to generate market intelligence that opens sets of potential opportunities of which entrepreneurial firms respond to exploit them.

Entrepreneurial orientation refers to methods, practices and decision making styles managers or business owners use to act entrepreneurially (Tang, Tang, Marino, Zhang & Li*,* 2008:234; Covin, Green, & Slevin, 2006:59). Such practices entails autonomy in making timely decisions that are crucial in competitive environment to cope with the speed of environmental change, innovation that involve doing things differently from existing businesses or service providers, risk taking in business undertakings, proactive in seizing opportunities and competitive aggressive towards rivals (Lumpkin & Des, 1996:139). Lumpkin and Dess (2001:430) pointed that pro-activeness is a response to opportunities and more appropriate in a dynamic environment or in growth stage of business industry where conditions are rapidly changing and opportunities for advancement are abundant. Consistently, it is argued that competitive aggressiveness involves response to existing competitive trends

and demands, or response to competitor in the effort to defend or acquire competitive position. In such, one will say proactive behavior is a response to opportunities while competitive aggressiveness is a response to competitors' behaviours and demands, which imply that competitive aggressiveness is more suited in competitive environment.

With the understanding that SMEs are confronted by resource scarcity and both opportunity seeking and advantage seeking behaviours requires considerable amount of resources, this study considers that a firm with the ability to initiate and sustain beneficial networking relationships, are likely to benefit more than those who are not. Kale *et al.* (2000:221) pointed that networking capability has four dimensions namely coordination, relational skills, partners knowledge and internal communication. The relevance of networking capability in this study is to address the problem of resource scarcity among SMEs, which is a target of this study. It is considered that one way for a firm, with scarce resources to survive in a competitive environment should be its ability to develop robust networks to share resources with other firms or individuals (Hitt *et al.,* 2007:263) in order to withstand the competition posed by the rivals. In all cases, networking capability sustains the competitive advantage of a firm, by providing backstopping in terms of the resource needs and capabilities of a firm to move forward in order to foster opportunity seeking and advantage seeking through continuous identification and exploitation of opportunities.

Investigating market orientation, entrepreneurial orientation, and networking capability, it becomes clear that the focus is on a firm's response to opportunities, customers' and competitors' behaviours and other environmental dynamic factors to ensure a firm's performance. It is from this context; this study labeled the three strategies as the dimensions of the "strategic entrepreneurial response" and examines their relationship with SME's performance. While previous studies have examined the dimensions of strategic entrepreneurial response, such as market orientation, entrepreneurial orientation, and networking in relation to firm performance, this study replace networking with the networking capability and integrate the three dimensions of strategic entrepreneurial response and examines their interaction and impact on SME performance.

The reasons for integrating the three dimensions is based on the fact that in real life entrepreneurs use these strategies in combination depending more on circumstances and not in isolation as they used to be studied. According to the literature review the interaction of the three dimensions of the strategic entrepreneurial response and their relationship to SME performance have not been studied before and remain unclear (Li *et al.*, 2008:114). The significance of this study contributes to the growing literature of strategic entrepreneurship on factors contributing to simultaneous opportunity seeking and advantage seeking behaviours that subsequently contributes to SME performance. The emphasis is placed on the individual and the interaction of the dimensions of strategic entrepreneurial response and their impact on SME performance. Understanding how SME's attain performance is timely, given the competitive environment posed by trade liberalization and globalization.

1.2   PROBLEM STATEMENT

Despite of consensus among scholars that strategic entrepreneurship is the intersection of strategic management and entrepreneurship that fosters opportunity seeking and advantage seeking behaviours, and is appropriate for firms addressing challenges posed by dynamic environments (Hitt *et al.,* 2002:2; Ireland *et al.,* 2003a:965). Ireland and Webb (2007b:55) and Ketchen *et al.* (2007:374) observed that firms face challenges to simultaneously combine opportunity seeking and advantage seeking behaviours. Supporting this argument, Schindehutte and Morris (2009) pointed that "strategic entrepreneurship is more than intersection of strategic management and entrepreneurship and treat this fusion as a contested idea and not settled issue".

While this study acknowledges efforts made by previous studies to address challenges confronting businesses in the dynamic and competitive environment, the conceptual gap in strategic entrepreneurship is one of the reasons compelled to carry out this study. Among reasons for the conceptual gap might be the constructs chosen by previous studies to explain strategic entrepreneurship may not be adequate to enhance simultaneous opportunity seeking and advantage seeking

behaviours. This argument opens up more opportunities for further studies to examine more constructs that may explain how firm can attain simultaneous opportunity seeking behaviour and advantage seeking behaviour essential in the domain of strategic entrepreneurship.

In this view, this study argues that market orientation and entrepreneurial orientation are well placed to address the challenge of simultaneous opportunity seeking and advantage seeking behaviours that subsequently sustain SME performance. Market orientation is considered relevant to generate market intelligence which forms a source of opportunity of which it sets a context for the entrepreneurial oriented firm to exploit and create a competitive advantage. With the understanding that MO and EO requires resources to implement and SMEs are constrained with resources, this study considers including networking capability as a way in which resource constrained firms can access and complement resources and capabilities needs from networking partners.

However, previous studies on market orientation and entrepreneurial orientation in strategic entrepreneurship have reported mixed results with respect to their relationship and contribution to firms' performance. While some studies have reported a positive relationship, others have failed to find this relationship or found only weak or partial relationships. The equivocal results from previous studies limit generalization of findings and raises legitimate questions as follows:

▪ Is there any relationship between individual dimensions of SER and SME performance? If yes, does the composite dimensions of SER presents similar nature of relationship with SME performance?

▪ How much variance in SME performance is explained by scores of the composite dimensions of SER?

▪ Is there a relationship among the composite dimensions of SER? And whether the interactions of the composite dimensions of SER explain a significant amount of variance in SME performance?

- If the demographical variables such as the firm size, type of industry, and level of education of the owner/manager are controlled, is the three composite dimensions of SER namely market orientation, entrepreneurial orientation, and networking capability still able to explain a significant amount of variance in SME performance?

- Which predictor is able to explain higher amount of variance in SME performance? Or which is the best predictor to explain SME performance among the three composite dimensions of SER namely market orientation, entrepreneurial orientation, or networking capability?

These questions prompted this study to isolate appropriate factors enhancing simultaneous combining opportunity seeking and advantage seeking behaviours that foster competitive advantage and SME performance as a response to competition posed by environmental changes.

1.3   IMPORTANCE AND JUSTIFICATION OF THE STUDY

This research contributes to the entrepreneurship literature in a number of ways as mentioned below.

- Given the fact that there is a growing consensus among scholars on the relevance of strategic entrepreneurship to cope with the challenges posed by the dynamic environment, firms still face challenges of simultaneous combining opportunity-seeking and advantage-seeking behaviors to sustain firm's performance. This study introduces a concept of Strategic Entrepreneurial Response (SER) in entrepreneurship literature to explain how firms can simultaneously combine opportunity seeking and advantage seeking behaviours in order to attain a firm's performance.

- While equivocal results have been reported in previous studies on the direct relationship between dimensions of strategic entrepreneurial response and firm performance, this study responds to fill this gap by examining the relationship between dimensions of SER and SME performance and the amount of variance explained in SME performance bythe dimensions of SER.

- Based on the fact that when firms are confronted by environmental challenges, they are likely to respond by adopting different combinations of strategies and are not bound to a single strategy as they are previously studied. This study examines the interaction of dimensions of the SER and identifies the amount of variance explained in SME performance by the interaction of dimensions of SER.

- In view of the continuous increase of business environmental turbulence, this study identifies the best predictor of SME performance to cope with the environmental dynamics.

The findings of the research are useful for researchers, policy makers, and practitioners in SME sector, intending to improve performance of the SMEs. The firm's performance is vital for SME attaining a competitive edge to face challenges posed by intense competitive business environment as it is the case in the open market economy. Researchers, policy makers, and other stakeholders who would like to support and improve SME performance, will be able to target their scarce resources to firms possessing combination of dimensions of the strategic entrepreneurial response contributing to SME performance. Practitioners will be able to identify the gap and fill it by enhancing SMEs to acquire a combination of dimensions of strategic entrepreneurial response, necessary to attain a firm's performance. Understanding how SMEs attain performance is timely, given the prevailing competitive business environment in which SMEs operate.

1.4   RESEARCH OBJECTIVES

The general objective of this study is to examine the role of dimensions of strategic entrepreneurial response to foster simultaneous opportunity seeking and advantage seeking behaviour to enhance SME performance.

The general objective leads to the following specific objectives:

- To study the relationship between individual and composite dimensions of strategic entrepreneurial response and SME performance.

- To examine the amount of variance explained in SME performance by the composite dimensions of the strategic entrepreneurial response.

- To study the interaction of the composite dimensions of the strategic entrepreneurial response.

- To examine the amount of variance explained in SME performance by the interaction of the composite dimensions of the strategic entrepreneurial response.

- To study the influence of the demographical variables such as firm's size, type of industry, and level of education of owners/managers on the contribution of the composite dimensions of the SER in SME performance.

- To identify the best predictor that explains more variance in SME performance.

1.5   DEFINITION OF TERMS

This section briefly presents definitions of key terms used in this study. The intension is to clarify the terms and develop a common understanding from the onset of the study. The definitions covered under this section include; market orientation, entrepreneurial orientation, networking capability and strategic entrepreneurial response. The details of these concepts are reviewed in details in chapter three.

1   Market orientation

The concept of market orientation used in this study is based on the cultural perspective presented by Narver & Slater (1990:21) which is defined as "the organisation culture that most effectively and efficiently creates behaviours for the creation of superior value for buyers and thus, continuous superior performance for the business". The market orientation consists of three behavioural components: customer orientation, competitor orientation and inter-functional coordination.

2   Entrepreneurial orientation

Entrepreneurial orientation refers to a firm's strategic posture, reflecting how firms explicitly or implicitly choose to compete (Tang *et al.,* 2008:234). This encompaces processes like experimenting with promising new technologies, being willing to seize

opportunities, and having a predisposition to undertake risky ventures. In this view, five dimensions namely; autonomy, innovation, risk taking, pro-activeness, and competitive aggressiveness are identified in the literature to characterise and distinguish key entrepreneurial processes that is part of the firm's entrepreneurial orientation (Lumpkin & Dess, 1996:139; Lumpkin and Dess, 2001:431; Miller, 1983:771).

3   Networking

Networking is the mutual relationship which involves a firm with its customers, suppliers and competitors and often extends across industry, geographic, political and cultural boundaries (Hitt *et al.,* 2001:481). It involves exchange of information, technologies, resources, knowledge and expertise (Hitt *et al.,* 2007:263; Ireland, Hitt, Camp. & Sexton*,* 2001:55) to enhance their competitive capabilities.

4   Networking capability

Networking capability refers to the abilities to initiate, sustain, and use inter-firms relationships with various external partners (Walter *et al.,* 2006:541). In other words, networking capability emphasizes on the ability to develop and sustain relationship with mutual benefits among collaborating firms or partners. Networking capability has four dimensions namely: coordination, relational skills, partner knowledge, and internal communication that management of firms need to focus for the firm's good performance.

5   Entrepreneurial strategy

According to Ireland, Covin and Kuratko (2009:28) entrepreneurial strategy is a "logical response to presence of three often related environmental conditions: competitive intensity, technological change, and evolving product market domains".

6   Competitive advantage

Competitive advantage is attained when a firm execute a strategy that rivals cannot copy or find too costly to imitate (Hitt *et al.,* 2007:4; Barney & Arika, 2005:140).

7   Competitive capability

Competitive capability is a firm's ability to position or organise resources using the firm's structures and processes to attain a strategic objective (Amit & Schoemaker, 1993:35).

8   Firm resources

Barney (1991:101) defined firm's resources as "all assets, capabilities, organizational process, firm's attributes, information, and knowledge controlled by a firm that enable it to conceive of and implement strategies that improve its efficiency and effectiveness".

9   Dynamic capabilities

These are the firm's capacities to integrate, build, and reconfigure internal and external resources/competencies to address and shape rapidly changing environments (Teece, Pisano, & Shuen, 1997:516). However, recently other scholars modified the definition and define dynamic capability as the capacity of an organization to purposefully create, extend, or modify its resource base in an effort to attain competitive advantage (Helfat, Finkelstein, Mitchell, Peteraf, Sing, Teece, & Winter, 2007:4).

1.6   LAYOUT OF THE STUDY

This study is organized in eight chapters; the breakdown of the proposed contents for each chapter is given below.

Chapter 1   Introduction and background to the study

Chapter one introduces the background information of the study that leads to the research problem. The research objective is another part that briefly indicate what the research intended to achieve, followed by the importance of the study which present justification of the study and indicate the contribution of the study in the field of entrepreneurship.

Chapter 2   Evolution of strategic entrepreneurship

Chapter two reviews literature on the evolution of strategic entrepreneurship as the response to dynamic and competitive business environment. It examines the conceptual components of strategic entrepreneurship and highlights the conceptual gaps facing strategic entrepreneurship. Guided by four theories namely networking theory, organisational learning theory, resource based view, and dynamic capability view, this study proposes three constructs namely market orientation, entrepreneurial orientation, and networking capability as appropriate to fill in the conceptual gap in strategic entrepreneurship.

Chapter 3   Concepts of strategic entrepreneurial response

Chapter three introduces the concept of strategic entrepreneurial response (SER) and the three proposed dimensions namely market orientation, entrepreneurial orientation, and networking capability. It reviews the relationship between the dimensions of SER and SME performance and the possible confounding variables in the relationship and finally introduces the research conceptual framework for this study.

Chapter 4   General overview of SME development in Tanzania

Chapter four provides general overview of SME development in Tanzania to serve as sample background. It highlights the social economic settings before and after independence and their implication in entrepreneurial culture and SME development. The trend of SME development and various strategies employed to support the sector are presented. The chapter concludes by pointing out the main challenges facing SME in Tanzania in the era of globalization and trade liberalization.

Chapter 5   Research methodology

Chapter five presents the research methodology, which capitalises on the research design and sampling, the measurement techniques of variables and indicators that

were used to capture data for the proposed variables. The research design and sampling procedure give an insight on the population and the sample frame of the study. This chapter also point out ethical issues and integrity of research. It ends by indicating the methodologies of data analysis that were used to analyse data and make judgement on the advanced hypotheses.

Chapter 6   Findings of the research

Chapter six presents empirical findings of the research. The findings are presented in the form of descriptive statistics such as frequency and mean especially for demographic information to determine the distribution of variables. This part is followed by factor analysis that was used as a data reduction procedure and to determine the validity of the constructs and the measurement instruments used to collect data. Furthermore, the analysis of variance (ANOVA) is performed to examine influence of background variables in identified factors that subsequently contribute to SME performance, followed by the Pearson correlation analysis that tests the relationships among variables. The multiple regression analysis examined the relationship between dimensions of SER and SME performance and how much variance in SME performance is explained by the dimensions of SER. The multiple regression controlled the influence of the demographical variables on the amount of variance explained in SME performance by dimensions of SER and finally identifies the best predictor of SME performance.

Chapter 7   Discussion of findings

This chapter discusses the implication of the findings presented in chapter 6. First, it examines if the individual dimensions of market orientation, entrepreneurial orientation, and networking capability successfully measures the strategic entrepreneurial response (SER), and it proceeds to examine in detail the direct relationship of individual and composite dimensions of strategic entrepreneurial response and SME performance, and impact of interaction of the dimensions of strategic entrepreneurial response in SME performance. The discussion also point out the influence of firm size, type of the industry, and the level of education of

owners/managers in the relationship between dimensions of SER and SME performance. It ends by isolating the best predictor to explain SME performance.

Chapter 8   Conclusions and recommendations

Chapter eight draws conclusions and recommendations from previous chapters on discussion of findings. The conclusion points out the major findings and their strategic implication while the recommendations highlight new areas for further study and appropriate areas for intervention to improve SME performance.

1.7   CHAPTER SUMMARY

This chapter introduces the background information to the research indicating why it is necessary to carry out this study. The justification to the study and the objective of this study show what the study intends to achieve and contribute to the entrepreneurship literature. The next chapter reviews the literature on the evolution of the strategic entrepreneurship and highlights the research gap that needs to be filled by this study.

CHAPTER LAYOUT – CHAPTER TWO

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CHAPTER TWO

2   EVOLUTION OF STRATEGIC ENTREPRENEURSHIP

2.1   INTRODUCTION

This chapter presents literature review of strategic entrepreneurship as a response to the dynamic and competitive environment. It begins by introducing the concept of dynamic business environment and its impact on business performance. It highlights motivations for scholars in the field of strategy and entrepreneurship to search for appropriate responsive mechanism of firms to withstand challenges posed by continuous environmental changes. In the course of the review, this chapter capitalises on the previous works on strategic entrepreneurship by reviewing the conceptual components of strategic entrepreneurship, highlighting the main challenges confronting strategic entrepreneurship and the relevance of strategic entrepreneurship to small firms. It proceeds by highlighting the conceptual gaps of previous studies guided by four theories namely networking theory, organisational learning theory, resource based view, and dynamic capability view. The study identified entrepreneurial orientation, market orientation, and networking as appropriate constructs of strategic entrepreneurial response to address the conceptual gaps from previous studies.

2.2   DYNAMIC BUSINESS ENVIRONMENT

The globalisation and open market economy compelled modern firms both small and large to operate in turbulent and hostile environment that continuously pose threat to their growth and survival (Kuratko & Audretsch, 2009:1; Morris *et al*., 2008:7; Teece, 2007:1319). According to Covin and Slevin (1989:75) "hostile environments are characterised by precarious industry settings, intense competition, harsh, overwhelming business climate, and relative lack of exploitable opportunities". On the other hand, a turbulent or dynamic environment is the condition in which environmental factors are in constant flux and future events are less predictable (Emery & Trist, 1965:18; Kuratko & Audretsch, 2009:7). The prominent environmental factors identified to impact firms performance in dynamic environments are technological change, competitive intensity, change in customers

behaviour, regulatory environment, and demographic change (Ireland, Covin. & Kutatko, 2009:28; Morris *et al.,* 2008:4; Shane, 2003:23).

Today's business environment, more than ever before, is characterised by a fast change in these factors, a situation that leads to both new and established firms to design mechanisms to sense and respond to the environmental factors in order to survive and grow. However, the level of environmental turbulence is linked to the rate of change of environmental factors. The higher the turbulence in the environment, the higher the rate of change of the environmental factors and less they become predictable. Smart and Vertinsky (1984:200) studying corporate response to crisis identified two dimensions of an environment which determine a firm's response. The next section examines the dimensions of the environmental factors.

2.2.1   Dimensions Of External Environment

The literature conceptualise the external environment of the organisation as a continuum of change of which two dimensions are identified. Emery and Trist (1965:18) labelled the two sides of the continuum of which one side represents environmental stability (no change) and the other side represents turbulent or dynamic condition where environmental factors are in constant change. The rate of environmental dynamic or turbulence is related to the degree of uncertainty facing a firm. According to Hoskisson and Busenitz (2002:153), uncertainty occurs when there is inadequate information about cause and effect relationship that can be assigned to make prediction about the future outcome of an event. In this view, as you move along the continuum from a stable environment to the more turbulent, environmental factors that impacts firm performance become less predictable and more uncertain.

Globalisation and open market economy both have loosened country barriers that enabled free movement of people, capital, technology, goods, and services from one country to another (Hitt, Hoskisson, & Ireland, 2007:7; Hitt & Reed, 2000:27). This shift pushed each country to respond by removing protective policies and creating or developing new policies and regulations to support open market environment. The

new environment is characterised by creativity and innovation that resulted into rapid technological changes (Teece, 2007:1322). The free movement of people, capital, technology, goods, and services on the other hand, expose consumers to new brands and tastes that shift consumer preferences. All these changes have implications on the way firms are managed and respond to these turbulence of which in turn impact performance (Morris *et al.,* 2008:1). It is from this context, the next sections highlight the impacts of environment on a firm's performance.

2.2.2   Environmental Impacts On A Firm's Performance

The new operating environment has created enormous pressure to the previous protected markets. Covin and Slevin (1989:75) confirm that external environmental factors have strong impact on small firm viability and growth. Operating and surviving in dynamic environments is not only a challenge to large, established firms (Kuratko & Audretsch, 2009:1), the consequences are high for small firms due to their limited resources (Kropp & Zolin, 2005:1; Verhees & Meulenberg, 2004:137) that limit execution or take bold strategic decisions that require resources. Supporting this argument, Ireland, Covin. and Kuratko (2009:33) postulate that entrepreneurial strategies suited for dynamic environment require resources. In this view, resource constrained firms like the majority of small firms are unlikely to benefit from entrepreneurial strategies, unless they complement available resources and capabilities from other options such as networking (Hitt *et al.*, 2007:239; Ireland, Hitt, Camp. & Sexton*,* 2001:55).

While dynamic environment present opportunities (McGrath & MacMillan, 2000:1) unfortunately, not all firms are able to spot and exploit opportunities presented by the dynamic environment. The survival and viability of small firms in such environments depends mainly on how they respond to the challenges posed by the environment of which entrepreneurial strategies are considered appropriate (Cooper, Markman, & Niss, 2000:121; Morris *et al.,* 2008:1). To maximize long term performance of firms operating in turbulent environment, they are obliged to develop response mechanism to cope with the pace of environmental changes, as briefly highlighted in the next section.

2.2.3   Strategic Posture As A Response To Environmental Dynamic

The literature shows that firms respond and operate to the context in which they are exposed to. Ireland *et al.* (2009:28) conclude that "entrepreneurial strategy is a logical response to the presence of three often related environmental conditions: competitive intensity, technological change, and evolving (fragmented and/or emerging) product market domain". As such, entrepreneurial responses to address the mentioned environmental forces, require flexible coping entrepreneurial strategies and positive attitudes towards uncertainty. A dynamic firm with such attribute find even the most turbulent environment a source of opportunity (Smart & Vertinsky, 1984:201). Supporting this argument, Hoskisson and Busenitz (2002:153) and Kuratko and Audretsch (2009:1) point that in a dynamic environment characterised by uncertainty where environmental factors are difficult to predict, entrepreneurial mindset can be used as a way of thinking about business to capture benefits.

As such, the entrepreneurial response to address the environmental forces mentioned above requires firms to be creative and innovative, ability to take risks, act proactively in seizing opportunities and offering products and services to the market, adopt competitive aggressive strategies over rivals and have autonomy in decision making. According to Miller (1983:771) and Lumpkin and Dess (1996:139) firms with such behaviour are entrepreneurial oriented. By definition entrepreneurial orientation refers to a firm's strategic posture, reflecting how firms explicitly or implicitly chooses to compete (Tang *et al.,* 2008:234). The argument of relevance of entrepreneurial orientation on strategic posture is based on the influence to enhance both effective and efficiency service and products offering, that in turn capitalize on products or services differentiation, cost leadership and fast response strategies that foster a firm's competitive advantage. Hitt *et al.* (2007:4) postulate that a firm's competitive advantage is attained when a firm implement a strategy that competitors are unable to duplicate or find too costly to try to imitate.

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Through creativity, and innovation, a firm is likely to come up with new products, services and/or technological processes that differentiate themselves from competitors. Consistently, through administrative and process innovation, firms may increase efficiency of production or service delivery that enables them to capitalise on the cost leadership strategy. According to Hitt *et al.* (2007:109) cost leadership strategy is an integrated set of actions taken to produce goods or services with features that are acceptable to customers at the lowest cost, relative to that of competitors. Development of new products or services involve risk taking in terms of financial investment that entrepreneur is not sure to recover the investment cost in case the product fails in the market. In case the products or services succeed in the market, proactively entrepreneurs benefit from first mover advantage and create wealth (Li *et al.,* 2008:119; Hitt *et al.*, 2007:141). Opportunities in dynamic environment are dynamic and there are many competitors. Failure to compete aggressively and make timely decision to seize new opportunities, allow other competitors to take advantage. In this case, entrepreneurs with autonomy in making decisions are likely to make timely decisions and seize right opportunities at the right time.

The assurance of firms' survival and growth in dynamic business environment is characterised by steep competition, high risk, uncertainty, and fluid firm boundaries (Kuratko & Audretsch, 2009:1) is only granted to best performers. Due to continued trends towards greater environmental dynamics, learning to respond and compete in such environment becomes crucial to the survival and performance of small firms. As such, focus on entrepreneurial orientation alone is inadequate to face challenges posed by the environment. The argument is based on the fact that entrepreneurial orientation is more focused on opportunity seeking behaviour, which does not ensure sustainability of the created advantage. To sustain competitive advantage is a matter of advantage-seeking behaviour which is a domain of strategic management (Ireland, 2007:7; Schindehutte & Morris, 2009:242). In this case, the ability to navigate successfully in such an environment, the literature proposes a need to integrate entrepreneurship and strategic management of which it's intersection yield strategic entrepreneurship (Ireland, Hitt, Sirmon, 2003a:965; Kuratko & Audretsch, 2009:2). It is from this context the next section examine the evolution of the strategic entrepreneurship.

2.3 EVOLUTION OF STRATEGIC ENTREPRENEURSHIP

Strategic entrepreneurship is a new concept of academics and business practices (Ireland & Webb, 2007b:50; Schindehutte & Morris, 2009:241) which implies entrepreneurial actions with a strategic perspective (Hitt *et al*., 2001:480). Although much of related works were done before year 2001, it was until 2001 when special issues on strategic entrepreneurship was released (Hitt *et al*., 2001:488) that pledged for further integrative research to increase the understanding of strategic entrepreneurship as path to wealth creation. Following this call, Ireland *et al.* (2003a:967) developed a model of strategic entrepreneurship derived from resource-based view of a firm, human capital, social capital, organisational learning and creative recognition.

The evolution of strategic entrepreneurship is the response to a continuous change of business environment that has created a competitive landscape with substantial uncertainty (Kuratko & Audrestch, 2009:2). Despite of the short period, the strategic entrepreneurship field has existed, there has been encouraging progress made in defining a research agenda that seek to merge the opportunity seeking and advantage seeking behaviour (Ireland & Webb, 2007b:50). The opportunity seeking behaviour is the central subject of entrepreneurship focused on identification and exploitation of today's competitive advantage and advantage seeking behaviour is the central subject of the strategic management aimed at exploring to determine what it takes to sustain competitive advantage in future (Ireland & Webb, 2007b:59).

In the previous studies, phenomena of interest have been defined. Bygrave (1989:14) suggest that "a good science has to begin with precise definitions of concepts" to develop a common understanding amongst the research community. This has been accomplished by identifying dependent variables which include performance (Covin & Slevin, 1989:83; Monsen & Boss, 2009:713) and wealth creation (Hitt *et al.,* 2001:488; Ireland *et al.,* 2003a:967; Ketchen *et al.,* 2007:381). Others include competitive capability, strategic repositioning (Ireland *et al*., 2009:24) and strategic learning capability (Anderson, Covin & Slevin, 2009). Previous studies also have examined various antecedents mainly in terms of variables like

entrepreneurial orientation (Anderson *et al.*, 2009; Monsen & Boss, 2009:95), market responsiveness, organizational structure, environmental hostility, and strategy formation (Anderson *et al.*, 2009; Covin & Slevin, 1989:76). Others include entrepreneurial mindset, culture, leadership, resource management, creativity and innovation (Ireland *et al.,*2003a:980; Ketchen *et al.,*2007:376), and other firm level variables that capture the firms motivation and ability to engage simultaneous competitive and advantage seeking behaviours that leads to performance and wealth creation of a firm.

However, focusing on wealth creation as a measure of strategic entrepreneurship does not ensure sustainable advantage, a central subject of strategic management that partly justified the emergence of strategic entrepreneurship. Among reasons; wealth creation can result from discovering and exploiting short-lived opportunities which does not ensure sustainability. Clarifying the domain of strategic entrepreneurship Ireland *et al.* (2003a:968) and Ireland, Hitt, Camp and Sexton (2001:50) pointed out that for a firm to attain sustainable competitive advantage they need to strategically apply entrepreneurial wealth creation mechanisms. Thus a firm's strategic intent must continuously discover and exploit entrepreneurial opportunities, in order to continuously create competitive advantage that leads to maximum wealth creation (Hitt *et al.,* 2002:2; Ireland & Webb, 2007b:59).

While Kuratko (2007:157) and Morris *et al.*(2008:80) termed strategic entrepreneurship as a concept of corporate entrepreneurship that suits large and established firms, Monsen and Boss (2009:74) and Ireland *et al.(* 2003a:983) suggested that strategic entrepreneurship caters for new and established firms and to both small and large firms with the argument that firms of all sizes and categories need sustainable competitive advantage to survive in a competitive and dynamic environment. In this view, despite disagreements on the appropriate model that fit both small and large firms, there is much consensus on the role of strategic entrepreneurship which is conceived as how a firms' strategic intent facilitate sustainable process of discovering entrepreneurial opportunities for advantage seeking behaviour (Ireland & Webb, 2007b:50; Ireland & Webb, 2009:469; Morris *et al.,* 2008:88). To gain more insight in this concept the next sections briefly clarifies

related concepts such as strategy, strategic management, and entrepreneurship which are considered as the building blocks of the strategic entrepreneurship.

2.3.1   Concept Of Strategy

The dynamic environment requires firms to develop competitive strategies that enable to face challenges posed by competitors and enable to survive and perform better than rivals. There are different conceptualizations about strategy. According to Porter's (1996:64), strategy is about doing different activities than competitors or performing similar activities in a different way. Consistently, Agarwal, Audretsch and Sakar (2007:272) define strategy as a "theory about how to gain competitive advantage. Barney and Arikan, (2005:140) contend that competitive advantage exist when "a firm is implementing value creating strategies not currently being implemented by competing firms". Strategy is crucial in a dynamic environment (Helfat *et al,* 2007:1), it gives a firm ability to face challenges posed by the environmental changes and outperform rivals. Thomson (2001:9) defines strategy as a means to an end, which imply that strategy is a collection of what business does to attain objectives. This may include, but not limited to the methods they follow, set of activities executed, decisions they make in order to attain/reach certain objectives and levels of success.

There are several factors which all together create business environments. These factors include technological change, competitive intensity, policy and regulations, to mention a few (Ireland *et al.,* 2009:28; Morris *et al.*, 2008:4; Shane, 2003:3). In dynamic environment these factors change rapidly, which implies that for a firm to survive and grow, it must adjust itself to cope with these changes that may impact negatively on the firm. In the process of response to environmental change, firms must be flexible to create proactive and adaptive strategies to accommodate such changes. Depending on the rate of environmental change, the firm may adopt creativity and innovation (increamental and/or radical) to ensure that it responds to the pressure of environmental change to attain set objectives. Ireland *et al.* (2009:28) point that entrepreneurial strategy is a logical response to the dynamic forces of the environment. In support of this argument Thomson (2003:3) pointed that "a firm's strategy consists of the combination of competitive moves and business approaches

that managers employ to meet customer needs, compete successfully and achieve firm objectives".

In view of the above, a firm's strategy is a tool used by the management to place a firm at a competitive market position, carry out firm operations, attract and meet customer demands/needs, compete successfully and finally attain the firm's objectives. According to Thomson (2003:9) the firm objectives are the firm's performance target results and outcomes that a firm wants to achieve and they are used as a yardstick to measure the firm's performance. In other words, strategies are plans of actions designed to achieve the firm's objective. Based on this understanding, the next sections broaden our understanding of the concept of strategy by highlighting the essence of strategy evolution and the focus on business strategy.

2.3.1.1 Essence of strategy evolution

The modern environment in which both small and large firms operate is dynamic (Covin & Slevin, 1989:75; Ireland & Webb, 2007b:58; Kuratko & Audretsch, 2009:7; Teece, 2007:1322) . Every firm faces challenges that needs strategic entrepreneurial responses to cope with the shifting of industry and competitive landscape, changes of customer's preferences, initiatives of rival firms to increase market share, emerging of new opportunities and threats, changes in technology and other events that affect business performance (Ireland *et al.,* 2009:28: Ketchen *et al.,* 2007:371). In some cases, strategic changes are necessary when competitors make a revolutionary change that demands a dramatic response, when technological breakthroughs occur or when crisis strikes and major strategy are needed very quickly (Kuratko & Audretsch, 2009:7). In support of this argument, Thomson (2003:16) contends that a firm's strategy reforms over time as the number of changes and adaptations begin to mount. In this view, strategy is the response to environmental change in the effort to sustain or gain a new competitive capability of a firm.

In light of the above, the strategy renewal is inevitable in dynamic environment. The strategic renewal ranges from transformation of firm through the renewal of key ideas in which it is built (Guth & Ginsberg, 1990:5), to a complete redefinition of a firm's relationship with its markets or industrial rivals by fundamentally altering how it compete (Covin & Miles, 1999:52). The focus of strategic renewal is in particular, the strategy that mediates the firm. This is the environment interface which basically implies how a firm sense the environmental impulse and strategically respond to maintain competitive capability. In this case, strategic renewal is context specific, which implies that it varies from one context to another. Smart and Vertinsky (1984:201) articulate that "managers in more uncertain environments tend to assume greater risks and employ more innovative strategies than managers in less turbulent environments". This articulation implies that strategic entrepreneurial response is more relevant in dynamic and competitive environment than in stable environment, which again support the advanced argument that strategic entrepreneurship emerged as a response to increasingly environmental turbulence to maintain a competitive advantage (Ireland *et al.*, 2009:20)

Recent studies, Alvarez and Barney (2007:19), present two contexts in which strategies may vary: discovery and creation contexts. They argue that in discovery context, there is usually sufficient information to allow evaluation of critical assumptions in a strategy of which in turn the implications of these assumptions are anticipated, specific timelines for executing the strategy can be specified, and the size of market and potential returns can be estimated. However, given a time span, some elements of these strategies may be modified to reflect the environmental changes occurred over time. In the creation context, entrepreneurs are not exposed to the ex-ante information; therefore strategic formation relies mostly in experimenting, flexibility and learning by doing (Ireland *et al.,* 2009:20; Kuratko & Audretsch, 2009:7). The role of managers amongst others is to re-examine the effectiveness, efficiency and relevance of the strategy on regular basis and take corrective measures as the need arises to keep a firm matched with the pace of the environmental changes and maintain the right direction to achieve the firm's objective (Alvarez & Barney, 2007:19; Thomson, 2003:3).

A firm's strategy is a means to achieve ends, it answers management questions as to whether a firm should concentrate on a single business or create a diversified group of business, whether to pursue competitive strategy based on low cost or product superiority, how to respond to changing customer preferences, how to react to newly emerging market and competitive environment, and how to grow the enterprise over the long term (Thomson, 2001:9). A strategy thus reflects managerial choices amongst alternatives and signals a firm's commitment to particular products, markets, competitive approaches and ways of operating the firm. Based on the role strategy play in attaining business objectives, it is important to understand the focus of business strategy, of which the next section briefly highlights.

2.3.1.2   Focus of business strategy

In general, a firm's strategies are formed for several purposes, but mostly are likely to focus on business growth, customer satisfaction and outsmarting rivals. This is basically a response to the changing environmental conditions such as technologies and market conditions. This is possible if a firm focuses on creating competitive advantage over rivals that keep the firm stand out in the competing environment. The competitive advantage is the management centred domain and it is basically grounded in the resources and capabilities the firm uses to perform value adding transactional activities better than it's rivals (Ireland *et al.,* 2001:53). Teece (2007:1319) based on dynamic capability view, argues that firms hold heterogeneous and idiosyncratic resources on which their strategies are based and through which competitive advantages are achieved when strategies are successfully in leveraging these resources.

Alvarez and Barney (2007:21) argue that when entrepreneurs create and retain value from opportunity, it requires barriers to the diffusion of the source to competitors. The protection of intellectual property rights through patents and copyright where technological change and innovation give rise to entrepreneurial opportunity, is a central focus of strategic management of a firm as it gain and sustain competitive advantage (Schendel & Hitt, 2007:4). In the course of exploitation of such opportunities the strategically managed firm continues to scan the environment, evaluate new needs of customers, and other environmental factors

that may impact the future needs of customers and or the performance of the firm. Through strategic renewal it takes appropriate measures where necessary to sustain competitive advantage. Drawing from this context, it is logical for the next section to present briefly the concept of strategic management and the process through which it takes to sustain the firm's competitive advantage.

2.3.1.3 Strategic Management

The evolution of the field of strategic management can be traced back to 1979 when Schendel and Hofer (1979:2) wrote a book on "Strategic management: A new view of business policy and planning". This was a turning point for scholars viewing business policy and planning in a perspective of strategic management (Nag, Hambrick, & Chen, 2007:936). Strategic management is the field of interest that attracted attention of scholars from different fields such as economics, sociology, marketing, psychology, and finance (Hambrick, 2004). The diverse of scholars from different academic backgrounds might have contributed to the lack of consensual meaning of the field. Nag *et al.* (2007:935) assert that the field of "strategic management remain fragmented and lacks coherent identity". According to Astley (1985:507) and Cole (1983:112) "an academic field has socially negotiated boundaries and only exists if a critical mass of scholars believes it to exist and adopt a shared conception of its essential meaning". While this argument hold true in the advancement of the scientific field, strategic management suffers from heterogeneity of scholars' intellectual and specialities; consequently a different perception on the field is evident.

In the effort to further our understanding of the field of strategic management, various definition have been advanced trying to develop a common understand among scholars. Schendel and Hofer (1979:11) defined strategic management as "a process that deals with the entrepreneurial work of organization, with organizational renewal and growth, and particularly, with developing and utilising the strategy that drives the organisations' operations". Nag *et al.* (2007:944) views that the field of strategic management deals with the major intended and emergent initiatives taken by general managers on behalf of owners, involving utilisation of resources, to enhance performance of firms in their external environments. Recently, Morris *et al.*

(2008:192) gives broader view of the Strategic management as an art and science of formulating plans for effective management of external opportunities and threats in light of a firm's internal strengths and weaknesses.

In the broader context, strategic management provides the overall direction of the firm through formulation of strategic vision and mission, setting objectives, crafting strategies as means to achieve objective, implementing and executing strategies, monitoring and evaluation, to determine the effectiveness, efficiency and relevance of strategies and take corrective measures whenever it is necessary. This may suggest that strategic management is not a once-off operation; it is a continuous process that aims to sustain competitive advantage throughout the life time of the firm.

2.3.1.4 Scope of strategic management

The focus of strategic management is on activities aimed at attaining and sustaining the competitive advantage of a firm, that subsequently enhance sustainable performance over rivals (Ireland, 2007:7; Nag *et al.*, 2007:948; Schindehutte & Morris, 2009:242). The most commonly cited sources of competitive advantages are based on resources that are more valuable, rare, imperfectly imitable, and none substitutable than those held by competitors (Barney, 1991:105; Katkalo, Pitelis, & Teece, 2010:1175). This implies that a combination of resources that is valuable, difficult to copy by competitors and none substitutable by alternative bundles of resources to create a competitive advantage of a firm.

In competitive environments, strategic management is responsible for continuous search of new sources of a competitive advantage, which entails an ability to envision all resources and core capabilities of the firm, in terms of how they might be uniquely combined to create sources of value (Kuratko & Audretsch, 2009:2). Existing evidence supports the assertion that differences in a firm's performance are affected by both owned and controlled resources, as well as how the firm manages resources (Ireland *et al.,* 2003a:977). The scope of strategic management is the actions taken by firm to select favourable market opportunities as the context within which their unique and valuable resources can be exploited in ways that are difficult

for competitors to understand and certainly imitate (Ireland, 2007:7). It is evident that this can be well accomplished if strategic management is coupled with the entrepreneurial behaviour capitalized on continuous identification or creation of new opportunities that make a pool of feasible opportunities for strategic management to choose from.

In view of the above, it is clear that while entrepreneurship is responsible for continuous search and exploitation of new opportunities, strategic management focuses on sustaining the competitive advantage of a firm. At this stage it becomes crucial to understand the sources of opportunities and the scope of entrepreneurship as presented in the subsequent sections.

2.3.2   Role Of Entrepreneurship

Scholars tend to agree that entrepreneurship is associated with the identification and exploitation of opportunities (Shane, 2003:4; Shane & Vankataraman (2000:211), which implies that opportunities exist and are waiting to be discovered. Recent study using both discovery theory and creation theory, support these arguments that opportunities exist when competitive imperfection exist in the market (Alvarez & Barney, 2007:7). However, the two theories differ in their analysis of the origin of these competitive imperfections. In discovery theory, competitive imperfections are assumed to arise from external environment, or some other attributes of context within which an industry or market exists (Kirzner, 1973:10). The emphasis on the external environmental shocks forming opportunities, imply that entrepreneurs systematically scan the external environment to discover opportunities to exploit (Alvarez & Barney, 2007:13: McGrath & MacMillan, 2000:1). Other scholars echoed that opportunities surface primarily because of the disequilibrium that is created by continuous changes of the environmental factors such as technological changes, demographical dynamics, changes of consumer behaviour and other related factors (Kuratko & Audretsch, 2009:7; Shane, 2003:23; Schindehutte & Morris, 2009:240).

On the other hand, creation theory is focused on the premise that opportunities are created endogenously, by actions, reactions, and enactment of entrepreneurs exploring ways to produce new products and services (Baker & Nelson, 2005:359).

Supporting this view, other scholars pointed out that opportunities arise from imagination and insight and leads to create valuable inventions and innovations (McGrath & MacMillan, 2000:1; Schendel & Hitt, 2007:3). Consistently, Ireland, Kuratko and Covin (2003b:695) articulate that exploring opportunities contributes to the firm's effort to form a sustainable competitive advantage and create wealth. Since the opportunity, recognition, identification, and or creation are accomplished by entrepreneurship (Shane, 2003:4). It is from this context that a need arise to review the scope of entrepreneurship in sustaining competitive advantage as presented in the next section.

2.3.2.1   Scope of entrepreneurship

Whether opportunities are created or discovered is debatable, but scholars tend to agree that entrepreneurship focuses on newness and novelty in the form of new products, new processes and new markets as the drivers of wealth creation (Ireland *et al.,* 2003a:968; Ireland *et al.,* 2001:50). The literature in entrepreneurship supports this argument with the premise that exploitation of the entrepreneurial opportunities contributes to the firm's effort to create competitive advantage essential to generate wealth (Ketchen *et al.,* 2007:371). Other scholars have emphasized a need to manage resources strategically to attain competitive advantage as a condition to create wealth (Hitt *et al,* 2001:486). This implies that strategic management of resources creates bundles of resources that are valuable, rare, and that cannot be easily copied by competitors before a firm has adequate time to generate wealth (Wiklund & Shepherd, 2003:1313; Katkalo *et al.,* 2010:1175). In event, where a bundle of resources can be easily imitated through strategic management of resources, firms set barrier to protect it from being copied. This can be achieved through acquiring of intellectual property right (Schendel & Hitt, 2007:4).

2.3.2.2   Sustainability of competitive advantage

Sustainable competitive advantage is crucial in a competitive business environment where SMEs operate. It is through possession of the sustainable competitive advantage, firms are able to outperform rivals. These arguments implies that despite of the entrepreneurship process being responsible for opportunity recognition,

discovery, identification and/or creation as explained before (Schendel & Hitt, 2007:1), it is not sufficient by itself to bring about sustainable competitive advantages necessary for wealth creation. The sustainable competitive advantage necessary for a firm's performance and wealth creation is attained only if the firm promote successfully, continuous opportunity seeking and advantage seeking behaviours and the firm's strategies successfully leverage the available resources (Hitt *et al.,,* 2001:482).

In light of the above, both opportunity seeking behaviour and sustainable competitive advantage are crucial for a firm attaining higher performance over rivals. According to Ireland (2007:9) and Ireland *et al.* (2003a:966) opportunity seeking is an entrepreneurial behaviour responsible for continuous search and creation of opportunities, while sustaining competitive advantage is the role played by strategic management that is engaged in making feasible choice of opportunities for exploitation and managing resources strategically. In view of this, other scholars have indicated that integration of knowledge about entrepreneurship and strategic management that form strategic entrepreneurship is crucial to further our understanding of how wealth and performance is attained in new venture and established firms (Ireland *et al.,* 2003a:966; Ireland & Webb, 2007b:59; Schendel & Hitt, 2007:1). It is from this context that the next section presents the distinct nature of strategic entrepreneurship covering in details the intersection of entrepreneurship and strategic management and their implication in sustaining the competitive advantage of a firm.

2.3.3   Distinct Nature Of Strategic Entrepreneurship

To understand the distinct nature of the strategic entrepreneurship, it requires critical review of the main focuses of both the strategic management and entrepreneurship and draws the convergence elements that build foundation for the creation of a new concept (strategic entrepreneurship). In light of this, the next section briefly presents intersection of strategic management and entrepreneurship, in order to show how the field of strategic entrepreneurship emerged.

2.3.3.1   Intersection of entrepreneurship and strategic management

As the environmental dynamics continues to threaten the survival and performance of businesses, Ireland & Webb (2007b:59) suggested that the response to such environmental challenges require intervention strategy that simultaneously exploit today's competitive advantage and exploring for future's competitive advantage. Ketchen *et al. (*2007:373) termed exploring and exploitation as opportunity seeking and advantage seeking behaviours, respectively.   While the field of strategic management and entrepreneurship have developed largely separately from each other, they have something in common. Both are focused on how firms adopt environmental changes and exploit opportunities resulted from uncertainties and discontinuities (Gifford, 2010; Kuratko & Audretsch, 2009:7; Schindehutte & Morris, 2009:246; Shane, 2003:23). McGrath & MacMillan (2000:1), supporting this view, articulate that uncertainties present opportunities, thus employing entrepreneurial mindset can be used to the firm's advantage.

In view of the above, not all firms have ability to identify, discover and or create opportunities in the turbulent environments. It is only those that utilise an entrepreneurial mindset to recognize and impart meaning to an ambiguous situation, that turn into opportunities (Alvarez & Barney, 2002:90). However, the process of opportunities identification, discovery and or creation does not ensure sustainable competitive advantage in a dynamic environment. This only happens when it is coupled with continuous exploitation of the identified or created opportunities. Based on the fact that opportunity creation and or identification is associated with entrepreneurship (Shane & Venkataraman, 2000:211; Shane, 2003:4) and exploitation of identified and created opportunities, sustainable competitive advantages are attained through strategic management of resources (Schendel & Hitt, 2007:1; Ireland*,* 2007:9; Morris *et al.,* 2008:192). It is from this perspective; other scholars have indicated that entrepreneurship and strategic management share a common boundary and in this case, they are inseparable (Meyer, Neck, & Meeks*,* 2002:33) if a firm is to attain superior performance and create wealth (Ketchen *et al.,* 2007:371; Ireland *et al.,* 2003a:967). Barney (1991:102) emphasize the role of managers, critical to performance of their firms due to their ability to

identify and create appropriate combination of resources owned or controlled by firms to appropriate value from those resources.

As much as it is agreed that entrepreneurship is involved in the identification, and or creation of opportunities, entrepreneurial actions are then geared towards creating new ventures (Ireland, 2007:9; Shane, 2003:4; Shane & Venkataraman, 2000:211). On the other hand, strategic management provide a vision of what a firm want to be and how it plans to get there and formulate strategies as a means to attain their objectives (Thomson, 2003:6). Strategy creates a sense of unit or consistent actions throughout the firm, where every employee knows the firm's objectives and the role it is responsible for to contribute to the overall objective of the firm (Kuratko & Audretsch, 2009:3). Coupled with the continuous scanning of the environment and strategic renewal when it is necessary, strategic management has been singled out to place more emphasis on a firm's sustainable competitive advantage, necessary for a sustainable firms' performance and wealth creation (Barney & Arikan, 2005:124: Ketchen *et al.,* 2007:371)

In light of the above, both strategic management and entrepreneurship are dynamic processes responding proactively or reactively to the environmental changes to enhance firm performance which in turn creates wealth (Kuratko & Audretsch, 2009:2). Entrepreneurship focuses on a continuous creation and search for opportunities which are sources of competitive advantage through products or services, production or administration process, and market innovations (Shane, 2003:4; Shane & Venkataraman, 2000:211). On the other hand, strategic management calls firms to establish and exploit competitive advantages within a particular environment (Meyer *et al.,* 2002:33). It is from this context, Ireland *et al.* (2001:50) argued that strategic management provides the context for entrepreneurial actions and calls for choices to be made amongst competing alternatives and entrepreneurial opportunities constitute a primary source of choices to be made from a set of identified opportunities. These arguments have raised concern amongst scholars interested in the field of entrepreneurship and strategy and some have argued that entrepreneurship and strategic management are complementary fields of studies and not interchangeable (Schindehutte & Morris, 2009:243). For the purpose of broadening our understanding of the intersection between entrepreneurship and

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strategic management, the next section examines the concept of strategic entrepreneurship.

2.3.3.2 Concept of strategic entrepreneurship

Strategic entrepreneurship is an emerging field of study (Shindeutte & Morris, 2009:241) that involves simultaneous opportunity seeking and advantage seeking behaviours which leads to superior firm performance and wealth creation (Ireland *et al.,* 2003a:963; Ketchen *et al.,* 2007:371). Hitt *et al.* (2001:480) and Ireland *et al.* (2003a:966) term strategic entrepreneurship as entrepreneurial actions with a strategic perspective that evolved from integration of entrepreneurship and strategic management knowledge. While strategic entrepreneurship is widely acknowledged to result from strategic management and entrepreneurship, it is not yet clear whether it results from integration (Morris, *et al.,* 2008:194; Ireland, *et al.,* 2001:49; Ireland *et al.,* 2003a:966; Hitt *et al.,* 2001:481), intersection or interface (Meyer *et al.,* 2002:33), versus (Ireland, 2007:7), takeover or acquisition (Baker & Pollock, 2007:297) between the two fields of strategic management and entrepreneurship. Meyer (2009:346) made few observations on the words interface, integrate, versus, and takeover or acquisition. During analysis, Meyer (2009:346) argues that neither integration, takeover, nor versus appears friendly with the meanings of interface or intersection of which according to Meyer *et al.* (2002:33) were much more suited to describe the evolution of strategic entrepreneurship. In Baker and Pollock's (2007:297) and Meyer's (2009:341) views, allowing other terms such as integration, takeover, and acquisition, it is likely that strategy is succeeding in its takeover of the academic field of entrepreneurship, while in reality the two fields namely strategic management and entrepreneurship co-exist and the interface of the two fields form the strategic entrepreneurship.

Despite of the debate surrounding which terms should be used in bringing together strategic management and entrepreneurship to form strategic entrepreneurship, scholars agree that strategic entrepreneurship is relevant for firms using their resources and skills in dynamic environment to be able to respond to a significant environmental change that confronts many firms and create value for customers (Ireland & Webb, 2007b:50; Schendel & Hitt, 2007:1). Ireland *et al* (2003a:966)

pointed out that the competitive advantage is sustained through continuous identification and exploitation of new opportunities. The sustainable competitive advantage is created when firms combine effective opportunity seeking behaviour with effective advantage seeking behaviour (Ketchen *et al.*,2009:371; Ireland *et al.,* 2001:53), which implies that it should exploit today's competitive advantages, while exploring for the innovation that form foundation of the future's competitive advantage (Ireland & Webb, 2007b:50).

Opportunity is defined as the creation of new value to society in part or in whole (Schendel & Hitt, 2007:1), which Wickham (2006:433) referred to as the gap left in the market by those who are currently operating it. By continuous identification of these gaps and exploiting them, firms are enabled to capitalise on the first mover advantage. First mover advantage is associated with the pro-active behaviour which implies being the first to introduce new products/services or to create new markets that never existed before (Li *et al.,* 2008:119; Hitt *et al.*, 2007:141). This phenomenon is also associated with the innovation and risk taking behaviour. To sustain competitive advantage in such environments, the firm has to develop barriers from competitors to restrict imitation and or copying of products and services, which can be accomplished through acquiring patent or copyright (Schendel & Hitt, 2007:4) or creating resource combinations that are valuable, rare, and not easy to imitate or copy (Barney, 1991:105; Katkalo *et al.,* 2010:1175; Ketchen *et al.,* 2007:380).

In Miller's (1983:771) view, a firm is entrepreneurial if it behaves in a risk taking, innovative, and pro-active manner. Covin and Slevin (1990:125) used this conception to define strategic posture as a firm's general competitive orientation. However, Lumpkin and Dess (1996:136) added two more dimensions, competitive aggressiveness and autonomy and refined the concept of strategic posture into "entrepreneurial orientation" that refers to the processes, practices, and decision making activities that lead to new entry (Lumpkin & Dess, 1996:136). While entrepreneurial orientation has often been used in the context of corporate entrepreneurship (Dess & Lumpkin, 2005:147), its roots are clearly in the broader tradition of strategic management and therefore is well suited for investigations of strategic entrepreneurship (Monsen & Boss, 2009:75) in both new venture and established firms (Hitt *et al.,* 2001:488).

According to Ireland *et al.* (2003a:966) "small firms and new ventures are relatively skilled in identifying entrepreneurial opportunities, but less effective in developing and sustaining the competitive advantage needed to exploit those opportunities over time. In contrary, established businesses have demonstrated relatively superior skills in terms of developing and sustaining competitive advantages, but have less effective skills in recognizing entrepreneurial opportunities that can be exploited with their resources and resulting capabilities". Drawing from resource based view, resources that are rare, inimitable and non-substitutable (Barney, 1991:105; Katkalo *et al.,* 2010:1175) when owned and managed strategically (Schindehutte and Morris, 2009:242) by the firm, leads to a sustainable competitive advantage (Ireland *et al.,* 2003a:967).

Examining the resource status of small firms, it is characterised by inadequate resources (Kropp & Zolin, 2005:1; Nieto & Santamaria, 2010:45; Verhees & Meulenberg, 2004:137). No wonder this is among the reasons why they cannot sustain competitive advantage as reversed to their counterpart large firms which enjoys resource munificence. It is from this contention, other scholars indicate that strategic entrepreneurship is a corporate domain and not appropriate for small firms (Morris *et al.,* 2008:80; Kuratko, 2007:157). On the other hand, new ventures and small firms are relatively privileged to identify new opportunities, because they enjoy internal conditions that encourage innovativeness such as; entrepreneurship, flexibility and rapid response (Nieto & Santamaria, 2010:45). Also, small firms are not tied with the technological inertia, as used to be in large and established firms which have invested heavily on existing technologies. This situation makes them reluctant to adopt a new technology due to cost implication, which is in most cases not the case for new entrants or small firms.

The antagonistic behaviour between small and large firms in terms of opportunity identification and sustaining competitive advantage does not help to address the challenges of environmental dynamics confronting both small and large firms. While scholars agree that strategic entrepreneurship is appropriate for a firm to address challenges posed by the dynamic and competitive environment (Schindehutte & Morris, 2009:242), the debate is still on which constructs are appropriate for both

small and large firms. With this understanding, Ireland *et al* (2003a:967) developed a model of strategic entrepreneurship presented in the next section that is considered appropriate for both small and large firms.

2.3.3.3   A model of strategic entrepreneurship

Persistent dynamic environment and competitive pressure in today's business environment created a need to develop appropriate response mechanisms to sustain competitive advantage for both small and large firms. It is from this view, the dynamic model of strategic entrepreneurship was developed by Ireland *et al* (2003a:967), that integrates perspectives from the resource based view of the firm, human capital, social capital, organizational learning and creative recognition (Monsen & Boss, 2009:74). The model identified four dimensions to create ability of a firm to develop competitive advantage that leads to wealth creation. These dimensions are entrepreneurial mindset, entrepreneurial culture and entrepreneurial leadership, managing resources strategically and applying creativity and developing innovation (Figure 2.1).
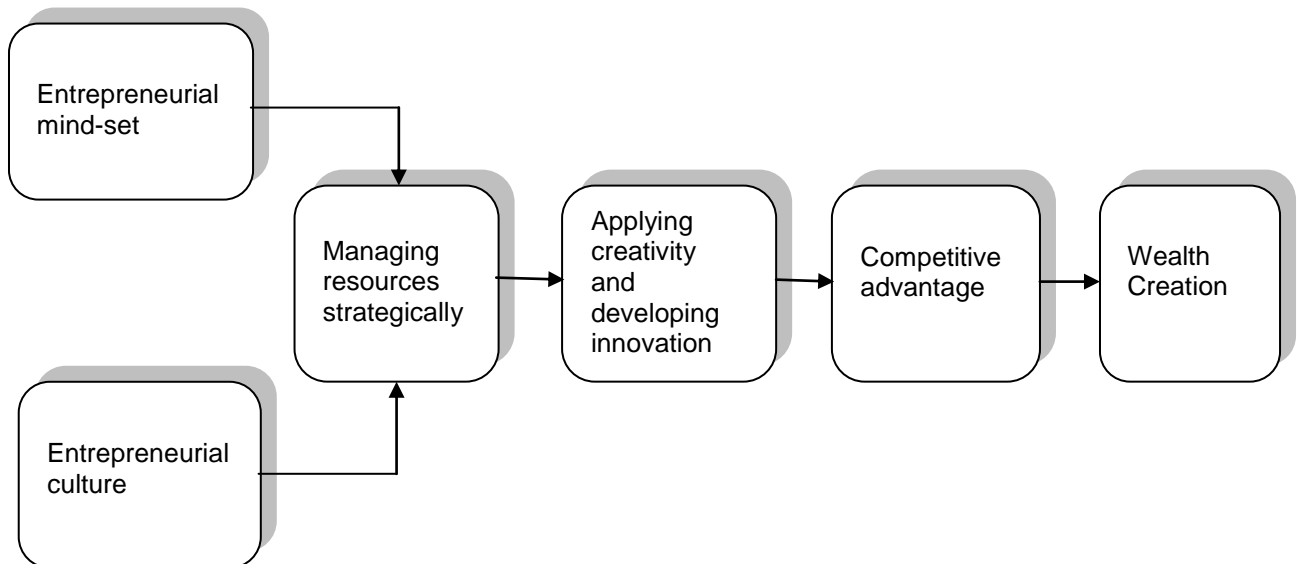
Figure 2.1:   A model of strategic entrepreneurship
Source: Ireland *et al* (2003a:967)

The model considers a firm as a basic unit of analysis and it assumes a need for simultaneous opportunity seeking and advantage seeking behaviours in order for firms to maximize wealth creation (Ireland *et al.,* 2003a:966). The opportunity

seeking behaviour is more of an entrepreneurial action responsible for a firm's identification of new opportunities, creates new markets, seizes new customers, and creates a new combination of resources that are inimitable to create a firm's competitive advantage. On the other hand, advantage-seeking behaviour is more of strategic-behaviour responsible for selecting strategies to sustain competitive advantage (Ireland *et al.,* 2001:50). According to Schindehutte and Morris (2009:242) the opportunity seeking behaviour and advantage seeking behaviour complement each other and the balance of the two is attained through strategic management of resources that is achieved by employing entrepreneurial mindset, entrepreneurial culture and entrepreneurial leadership. Despite of a compelling argument that strategic entrepreneurship is appropriate for the firms operating in a dynamic and competitive environment, the concept face several challenges that deserve mentioning. In this regard, the next section highlights briefly the main challenges confronting strategic entrepreneurship.

2.3.3.4   Relevance of strategic entrepreneurship in small firms

The majority of the previous scholars on strategic entrepreneurship focused their studies on corporate entrepreneurship and regarded strategic entrepreneurship as much more relevant for corporate entrepreneurship than small firms (Kuratko, 2007:157; Morris *et al.,* 2008:88). Among reasons for excluding small firms in strategic entrepreneurship, is the idea that small firms struggle with the managerial challenges and other resources (Kropp & Zolin, 2005:1; Nieto & Santamaria, 2010:45; Verhees & Meulenberg, 2004:137). The pursuit of entrepreneurial strategies such as entrepreneurial orientation requires resources (Covin & Slevin, 1991:15). The risk taking, innovativeness and proactiveness of entrepreneurial firms, all involves large resource commitments to risky projects, untried technologies, new products or services to the market (Tang *et al.,* 2008:222). As such, this argument has been echoed by other scholars that a firm's competitive capabilities are built through recognition and exploitation of entrepreneurial opportunities, which requires resources (Ireland *et al.,* 2009:35). In this view, small firms cannot be able to integrate entrepreneurial opportunity seeking and advantage seeking behaviour leading to new, valuable and unique business concepts because of inadequate resources.

In a dynamic and competitive environment, firms regardless of their sizes, face the same environmental consequences. The survival of businesses in such environment must strive to execute entrepreneurial strategies to attain sustainable competitive advantage (Cooper *et al.,* 2000:121). Ireland and Webb (2007b:50) asserted that the need for a firm to learn how simultaneously exploit current opportunities better than competitors while exploring new opportunities for future success, is crucial in a dynamic environment. The emergence of the strategic entrepreneurship solve this puzzle, since it is the intersection of strategic management and entrepreneurship that yield entrepreneurial opportunity seeking and advantage seeking behaviours oriented to give superior value creation and at the same time reduction of competitive threats (Hitt *et al.,* 2001:50). Strategic entrepreneurship is a dynamic construct, describes a deliberate and enacted wish to seek for and respond to shifts in the environment (Kuratko & Audretsch, 2009:14), which is suitable to all business categories such as large, small, established and corporate entrepreneurship. Hitt *et al.* (2001:488) suggests that new ventures and established firms need to be simultaneously entrepreneurial and strategic, for small and large firms that learned to integrate both strategic and entrepreneurial skills, are well positioned to survive and create wealth in a dynamic and competitive environment (Ketchen *et al.,* 2007:371).

Drawing from dynamic capability view, strategic entrepreneurship provides guidelines for the interaction between competitive strategies and allocation of resources, where acquisition and building of resources into unique, cost effective, and valuable patterns aimed at addressing the rapidly changing environments (Helfat *et al.,* 2007:2). Bachmann (2002:64) affirm that competitive strategy remains the foundation for understanding competition, rivalry and industry dynamic which is crucial to both small and large firms. For firms to perform better, the entrepreneurial action has to be strategic in keeping competitors away from its successful business model, while speeding up the firm to attain the set objectives (Kutatko & Audretsch, 2009:5).

2.4 THEORETICAL CONCEPTUAL COMPONENTS OF STRATEGIC ENTREPRENEURSHIP

Several conceptual components used in strategic entrepreneurship are borrowed from strategic management and entrepreneurship literature (Tang *et al.,* 2008:219; Ireland *et al.,* 2001:49; Ireland & Webb, 2007b:51) where they are conceptualised and empirically tested. Strategic entrepreneurship itself, as a new and emerging field, has not developed robust and empirical tested constructs (Ireland 2007:9; Schindehutte & Morris, 2009:241). Despite of the strategic entrepreneurship being quick to converge on an overall general accepted theoretical model with wealth creation and performance as the outcome variables, there are few empirical studies on the conceptualised causal relationships (Hitt *et al.,* 2002: 2, 13; Ireland *et al.,* 2003a:963; Ireland *et al.,* 2009:20; Ireland & Webb, 2007b:58; Ketchen *et al.,* 2007:371; Kuratko & Audrestch, 2009:5). It is from this context, recent studies suggested that there is a need for strategic scholars to be creative and innovative in selecting constructs to further the understanding of strategic entrepreneurship (Ireland, 2007:9; Monsen & Boss, 2009:74). In this context the next section presents antecedents of strategic entrepreneurship as applied in previous studies.

2.4.1 Entrepreneurial Orientation As Antecedent Of Strategic Entrepreneurship

Monsen and Boss (2009:74) used entrepreneurial orientation as an antecedent of strategic entrepreneurship, with the argument that the degree to which a firm acts entrepreneurially in terms of innovation, risk taking, and proactively, is related to strategic management. Moreover, entrepreneurial orientation refers to the strategy making practices that businesses use to identify and launch new ventures (Dess & Lumpkin, 2005:147; Lumpkin & Dess, 1996:136). In this case an entrepreneurial orientation is essential component of entrepreneurial firm in an opportunity identification and exploitation (Shane, 2003:4; Shane & Venkataraman, 2000:211). Covin and Slevin (1991:8) pointed earlier that a construct closely aligned with the focus of strategic entrepreneurship, is an entrepreneurial orientation with the argument that "an organisation's actions make it entrepreneurial" which imply that organisational behaviour is regarded as the means through which an entrepreneurial orientation can be recognised. It is from this argument, that entrepreneurial

orientation has been often used in empirical research as an antedates of strategic entrepreneurship.

2.4.1.1   Dimensions of strategic entrepreneurial orientation

While Miller (1983:771) identified three dimensions of the entrepreneurial orientation namely; innovation, risk taking and pro-activeness, it was Lumpkin and Dess (1996:139) who clarified the entrepreneurial orientation and added two more dimensions namely: competitive aggressiveness and autonomous. Ireland, Kuratko and Covin (2003b) argued that although variations on the levels of some dimensions of entrepreneurial orientation may exist amongst firms, continuously leveraging entrepreneurial opportunities requires firms to deliberately enact entrepreneurial orientation. This argument is based on the important role played by the entrepreneurial orientation in the process of opportunity identification and exploitation.

Miller (1983:771) argues that a firm is classified as an entrepreneurial when it engages in risk taking, innovation, and proactive business practices. Based on this argument, Covin and Slevin (1990:125) defined "strategic posture as a firm's general competitive orientation, on a spectrum from conservative to entrepreneurial". Initially, the scale of strategic posture was used to investigate a number of strategic management and entrepreneurship issues such as environmental hostility (Covin & Slevin, 1989:75), strategic posture (Covin & Slevin, 1990:128), strategic mission (Covin, Slevin, & Schultz, 1994:485) and strategic process effects (Covin *et al.,* 2006:59). While previous studies have often used the concept in entrepreneurship, Monsen and Boss (2009:75) and Lumpkin and Dess (1996:136) pointed out that the origin of the concept of entrepreneurial orientation is strategic management. The clear overlap between strategic management and entrepreneurship explains why entrepreneurial orientation has been one of the favourable empirical constructs in strategic entrepreneurship.

Monsen and Boss (2009:75), based on the three dimensions of entrepreneurial orientation identified earlier by Miller (1983:771), examined a model of strategic entrepreneurial developed by Ireland *et al.* (2003a:967) and reported that the

"dimensions of entrepreneurial orientation: risk taking, innovativeness, pro-activeness, are mostly closely representing the concept of "applying creativity and developing innovation" that encompasses both sustaining and disruptive innovation as drivers of wealth creation (Ireland *et al.,* 2003a:983) (Figure 2.1). In their views, Monsen and Boss (2009:75) argued that "disruptive innovators proactively influence their competitive destiny" and enjoy first mover advantage by destroying incumbent's market power and create wealth for their firms (Lumsdaine & Binks, 2009:15; Ireland *et al.,* 2003a:980). Based on this argument the concept of pro-activeness was added in the model of strategic entrepreneurship.

Furthermore, Monsen and Boss (2009:75), based on the argument raised by Ireland *et al.,* (2003a:983) that it is "risk to introduce a new product or service in the market to compete with existing goods with the established reputation", proposed that the concept of "risk taking" be included in the model of strategic entrepreneurship. Based on this argument, Monsen and Boss (2009:75) proposed that the concept of "applying creativity and developing innovation" in the model of strategic entrepreneurship developed by Ireland *et al.* (2003b) (Figure 2.1) should include risk taking, innovation, and pro-activeness which are basically dimensions of entrepreneurial orientation. The proposed list of dimensions of entrepreneurial orientation fall short of two more dimensions: autonomy and competitive aggressiveness proposed by Lumpkin and Dess (1996:139) to capture the full spectrum of entrepreneurial orientation that has five dimensions namely: innovation, risk taking, proactiveness, autonomy, and competitive aggressiveness.

2.4.1.2   Relevance of autonomy and competitive aggressiveness

Building on Miller's (1983:771) conceptualisation of entrepreneurial orientation of three dimensions: innovation, risk taking, and proactiveness, Lumpkin and Dess (1996:139) extended the concept of entrepreneurial orientation by adding two more dimensions: autonomy and competitive aggressiveness. Lumpkin, Cogliser, and Schneider (2009:63) argued that "autonomy affords a firm's member the freedom of decision-making and flexibility to develop and enact entrepreneurial initiatives with little interference of the firm's line of command as the crucial aspect of entrepreneurial value creation and central to the notion of strategic

entrepreneurship". This is especially crucial in dynamic and competitive environment where opportunities are dynamic and they require timely decisions. Covin *et al.,* (2006:60) share a similar view, that "timely decisions are important to catch up with the market opportunities as they unfold, since even entrepreneurial oriented firms that are proactive by definition may not quickly respond to new market opportunities if their decision processes are slow".

On the other hand, competitive aggressiveness in this context associated with the reality that in competitive environment, competing firms are alert and focused to competitors and always strives to defend their competitive position by both proactively and reactively strategies against rivals to ensure survival (Lumpkin & Dess, 2001:434). In this case, the competitive aggressiveness has competitive strategic orientation. While autonomy and competitive aggressiveness have been accepted as dimensions of entrepreneurial orientation (Lumkin & Dess, 1996:139), they have never been tested empirically in strategic entrepreneurship. Previous studies have criticised the unidimension nature of the entrepreneurial orientation and indicated that each dimension of entrepreneurial orientation varies independently and have different effects in different contexts (Monsen & Boss, 2009:75; Lumpkin & Dess, 1996:137). This study considers it worth to test all five dimensions of entrepreneurial orientation and examine their individual effects on a firm's performance as a measure of strategic entrepreneurship.

2.4.1.3 Relevance of entrepreneurial orientation in strategic entrepreneurship

While the use of entrepreneurial orientation in strategic entrepreneurship is new and there have been several justifications to employ the construct in the emerging field of the strategic entrepreneurship (Monsen & Boss, 2009:74; Ireland *et al.*, 2009:24), there are several reasons to believe that entrepreneurial orientation is a suitable construct to strategic entrepreneurship. Another way to justify the use of entrepreneurial orientation on strategic entrepreneurial is by examining its objective. Various studies have focused on the examination of the relationship between entrepreneurial orientation and performance (Ketchen *et al.,* 2007:605; Kraus *et al.,* 2005:335; Walter *et al.,* 2006:557). The performance is measured by several indicators such as return on asset, return on investment, profit, sales growth, and

wealth (Covin *et al.,* 2006:71). Examining strategic entrepreneurship is also focused on how firms are able to generate sustainable performance and wealth creation (Ketchen *et al.,* 2007:371; Ireland & Webb, 2007b:58; Ireland *et al.,* 2001:49). In this regard, these constructs focus on the same target.

Rauch, Wicklund and Frese (2009:762.) in their meta-analysis of entrepreneurial orientation reported that entrepreneurial orientation had been widely used in examining the relationship with a firm's performance. Similarly, Covin *et al.* (2006:72) pointed that "entrepreneurial orientation facilitate growth when entrepreneurial oriented firms employ strategic formation processes that match the unique requirements of acting entrepreneurially". This argument is consistent with the observation reported earlier by Ireland *et al.* (2001:50) on the concept of strategic entrepreneurship that contributes to wealth creation, which in turn leads to growth.

In this view, it is relevant to examine the relationship between entrepreneurial orientation and strategic entrepreneurship. Since entrepreneurial orientation reported previously to varies with context (Kreiser, Morino, & Weaver, 2002:85; Lumpkin & Dess, 1996:159; Rauch *et al.,* 2009:762). It is important to examine the structure of the construct to determine how it influences the firm's performance. In this context, the next section presents a review of structure of entrepreneurial orientation and its relationship to a firm's performance as a measure of strategic entrepreneurship.

2.4.1.4 Structure of entrepreneurial orientation

The structure of the entrepreneurial orientation construct has been debated. Previous studies have raised two opposing arguments. First scholars on the concept of entrepreneurial orientation such as Miller (1983:780) and Covin and Slevin, (1990:125) viewed and promoted unidimensional nature of the concept. In this view, the dimensions of entrepreneurial orientation were expected to converge to a single construct "entrepreneurial orientation", vary together, and have collective effect regardless of the context. However, this argument was criticised by other scholars who reported that the "entrepreneurial orientation" construct is of a multidimensional nature (Monsen & Boss, 2009:75; Lumpkin & Dess, 1996:160), which implies that the dimensions of entrepreneurial orientation vary independently of each other,

depending on the context. Moreover, the relationship between individual dimensions of the entrepreneurial orientation and performance may likewise vary on the same context (Lumpkin & Dess, 1996:159).

While Lumpkin and Dess (1996:150) presented theoretical argument on multidimensional nature of the entrepreneurial orientation, the empirical evidence of the multidimensional nature of the entrepreneurial orientation was presented following studies performed in different contexts. Kreise *et al.* (2002:85) assessing the psychometric properties of the entrepreneurial orientation across multiple country contexts confirmed empirical variation of the strength of dimensions of the strategic entrepreneurial orientation. Consistently, Monsen and Boss (2009:93) confirmed multidimension nature of entrepreneurial orientation and reported that each dimension had a different effect on the outcome variable. Lumpkin and Dess (2001:446) used a sample of multi industry, reported that the effect of the dimensions of entrepreneurial orientation (i.e. pro-activeness and competitive aggressiveness) varies independently. These empirical findings confirmed previous theoretical arguments presented earlier that dimensions of entrepreneurial orientation may vary independently based on the environment and organisational context (Lumpkin and Dess, 1996:137; Rauch *et al.,* 2009:762).

In line with the above findings, Covin *et al.* (2006:81) reported significant difference in terms of effects of risk taking, innovation, and pro-activeness on a firm's sales growth rate. These findings imply that the mentioned dimensions of strategic entrepreneurial orientation (risk taking, innovation, and pro-activeness) has separate effects on the outcome variable (sales growth rate). Supporting this finding, other scholars have treated risk taking, innovation, and pro-activeness as separate, but correlated constructs (Monsen & Boss, 2009:76). Consistently, Lumpkin *et al.* (2009:65) confirmed autonomous as an independent dimension of the entrepreneurial orientation and emphasised on the advantage of multidimensional nature of the entrepreneurial orientation that is easy to isolate an individual effect of each dimension in the relationship of interest and take appropriate measures to address the specific dimension.

2.4.2 Limitation Of The Previous Studies On Strategic Entrepreneurship

Strategic entrepreneurship is still a new field that has not developed its robust constructs. Consequently, various scholars have pledged to creatively and innovatively select constructs of interest for empirical test in order to further our understanding of the causal effect relationship and be able to isolate constructs that most suit strategic entrepreneurship. Despite of the efforts made so far to develop this new domain, potential gaps exist in terms of conceptualisation (Shindehutte & Morris, 2009:242) and form limitations that deserve mentioning. In this view, the next sections briefly highlight the limitations of the previous studies on strategic entrepreneurship.

2.4.2.1 Conceptual gaps of strategic entrepreneurship

In dynamic and competitive environment, firms requires strategic entrepreneurial responses to cope with the competitive landscape in which events such as consumer needs, technological opportunities, and competitor activities are constantly changing and less predictable (Cooper *et al.,* 2000:121; Teece, 2007:1322). Growth oriented firms need to adopt a new competitive strategy that is flexible, fast and innovative which is oriented towards timely identification and exploitation of emerging opportunities created by discontinuities as a result of environmental change (Kuratko & Audretsch, 2009:7). In such, literature indicate that the appropriate strategy in competitive and dynamic environment is the one that is continuously exploring and exploiting opportunities while sustaining competitive advantage for the future (Ireland & Webb, 2007b:50). In this view, strategic entrepreneurship is an approach that is widely accepted to serve firms well in their efforts to rely on competitive advantages as the path to superior performance, both today and in the future (Ireland & Webb, 2007b:55; Ireland & Webb, 2009:469; Ketchen *et al.,* 2007:371).

Despite of the appealing argument raised by proponents of strategic entrepreneurship, which is well suited to sustain competitive advantage through integration of opportunity seeking and advantage seeking behaviours, as necessary conditions to face challenges in dynamic and competitive environment, recent studies have indicated their concern on the potential gaps in terms of its

conceptualization. Schindehutte and Morris (2009:242) argued that "it is less clear whether this hybrid called strategic entrepreneurship is a subfield within the entrepreneurship discipline, a subset of strategic management, or corporate entrepreneurship, or a separate domain". It is from this view, other scholars have argued that strategic management is succeeding in its takeover of the academic field of entrepreneurship (Baker & Pollock, 2007:297). Furthermore, Schindehutte and Morris (2009:242) suggest that "strategic entrepreneurship is more than interface between strategy and entrepreneurship and call to treat fusion of strategy and entrepreneurship as a debatable idea rather than settled issue". The argument present the conceptual gaps of the strategic entrepreneurship and open up more opportunities for further research to select and test more constructs that explain the causal–effect relationship in the domain of strategic entrepreneurship.

2.4.2.2   Marginal position of small firms in strategic entrepreneurship

While it is true that both small and large firms are exposed to environmental challenges that requires strategic entrepreneurial response (Ireland *et al.,* 2009:28), it is likely that small firms are much more negatively impacted by these challenges compared to large and corporate entrepreneurial firms due to limitation of resources (Kropp & Zolin, 2005:1; Nieto & Santamaria, 2010:45; Verhees & Meulenberg, 2004:137). This fact calls for immediate response for scholars to come up with the robust responsive mechanism that creates competitive capabilities of small firm. With this in mind, Ireland *et al.* (2003a:967) proposed a theoretical model of strategic entrepreneurship intended to enable both small and large firms to create sustainable competitive advantage. Despite of this effort, the proposed theoretical conceptual model of strategic entrepreneurship is still debated on whether the proposed constructs are adequate to enhance sustainable competitive advantage of small firms. This argument is supported by the recent studies that indicate strategic entrepreneurship is a sub-domain of corporate entrepreneurship (Kuratko, 2007:157; Morris *et al.,* 2008:88). The on-going debate calls for further research to examine and come up with the most appropriate strategic entrepreneurship constructs that will cater for both small and large firms.

2.4.2.3   Under-representation of dimension of entrepreneurial orientation

These conceptual gaps of previous models of strategic entrepreneurship (Schindehutte & Morris, 2009:242), that captures both small and large firms (Ireland *et al.*, 2003a:967), open up further research to re-conceptualize the construct of strategic entrepreneurship. In this view, other constructs such as entrepreneurial orientation, that was considered closely linked to strategic entrepreneurship, were included in the strategic entrepreneurship model (Monsen & Boss, 2009:74). However, the dimensions of entrepreneurial orientation included in the model of strategic entrepreneurship were based on Miller's (1983:771) conceptualization with only three dimensions (i.e. innovation, pro-activeness, and risk taking) disregarding the other dimensions (i.e. competitive aggressiveness and autonomy) as extended by Lumpkin and Dess (1996:139). In the light of the fact that the dimensions of entrepreneurial orientation varies independently based on the context and level of industry life cycle development (Lumpkin & Dess, 2001:446) and have different effects in the outcome variables (Monsen & Boss, 2009:93), this study considers it appropriate to include all five dimensions of entrepreneurial orientation in order to capture the full spectrum of the entrepreneurial orientation.

2.4.2.4 Underplaying the role of market orientation in strategic entrepreneurship

Drawing from the literature, it is clear that strategic entrepreneurship is focused on opportunity seeking and advantage seeking behaviours (Ireland & Webb, 2009:469). While opportunity seeking behaviour is focused on identification, and or creation of entrepreneurial opportunities, advantage seeking behaviour is focused on exploitation and sustaining competitive advantage (Ireland & Webb, 2007b:50). As such, examining the two concepts opportunity seeking and advantage seeking behaviours are interrelated. This implies that continuous identification and successful exploitation of the entrepreneurial opportunities contribute to develop advantage seeking behaviour that leads into a sustainable competitive advantage, which is central in a competitive environment. In such, this observation is relevant, since entrepreneurial strategy is viewed as a source of a firm's competitive advantage (Cooper *et al.,* 2000:121), a way in which established firms develop capabilities that are central to their continuing performance.

Referring to the concept of "opportunity" as the gap left in the market by those who are currently operating in it and the concept of metaphor wall presented by Wickham (2006:433) in a search process of opportunity, it is clear that opportunity seeking behaviour involves identification of market gaps, evaluation of market gaps, take decision to exploit them when it is feasible and set barriers to competitors to attain sustainable competitive advantage. Market gaps are unsaved products or services in the market of which to sustain competitive advantage of a firm, the process of searching unsaved products and services in the market and exploiting them must be continuous to be able to generate adequate market intelligence, which form the basis for current and future market intervention strategies (Bhuian, Menguc, & Bell, 2005:10). Baker and Sinkula (2009:445) articulate that strong market orientation leads to products innovation. This articulation is based on the fact that through market orientation the firm is able to identify current and future needs of customers and understand clearly what strengths and weaknesses of competitors and other market forces may affect them.

The strategic entrepreneurship literature places more emphasis on strategic management and entrepreneurial posture (Ireland *et al.,* 2003a:966; Hitt *et al.,* 2001:480), and remain silent on the role market orientation can play to enhance a firm's competitive advantage. Amongst others, instituting the concept of market orientation in the model of strategic entrepreneurial orientation will enhance future market intervention strategies to focus on filling market gaps by offering more value to customers through incremental and or radical innovation and enable the firm to create wealth. Baker and Sinkula (2009:457) suggest that in "dynamic environment, strong market orientation is necessary to anchor a strong entrepreneurial orientation to those opportunities that are likely to be received by customers". In this view, it is compelling to believe that strategic entrepreneurship is strongly linked to market orientation through opportunity seeking. While this should be the case, previous studies underplayed the role of market orientation in strategic entrepreneurship. Hence a need for this study to include in the model of strategic entrepreneurship and examine how it contributes to build a firm's competitive advantage and attain its performance.

With the understanding that small and large firms differs on requirements and access to resources, the next section presents a review of theories behind competitive advantage and indicates how both small and large firms can build and sustain competitive advantages in dynamic and competitive environment.

2.5   THEORIES BEHIND COMPETITIVE ADVANTAGE

There are several theories which can be used to explain the sources of a firm's competitive advantage and the persistent differential in performance among firms. This study reviews four theories, namely: networking theory, organizational learning theory, resource based view and dynamic capability view. These theories are considered relevant to the nature of this study; hence they are reviewed to explain the source of competitive advantage and the persistent performance differential amongst firms.

2.5.1   Networking Theory

Networking is the mutual relationship that involves firms with customers, suppliers and competitors amongst others and often extends across industry, geographic, political and cultural boundaries (Hitt *et al.,* 2001:481). In dynamic and competitive environment where future is less predictable due to uncertainty, networking has increasingly become important for firms to share risk implied by the environment. The literature points among others, advantages resulting from networking to include faster market penetration, obtaining support and resources for survival such as access to information, technologies and competitive valuable knowledge that enhance innovation capability (Dickson & Weaver, 2011:126; Welter & Smallbone, 2011:112; Nieto & Santamaria, 2010:47; Semrau & Werner, 2012:159). In this view, networking theory help to explain the relationships a firm has with other firms and stakeholders, and how these relationships influence a firm's behaviour and competitive capabilities.

In strategic perspectives networking is crucial for SMEs like the one under this study, since in most cases they are limited with resources (Kropp & Zolin, 2005:1; Nieto Santamaria, 2010:45; Verhees & Meulenberg, 2004:137) to effectively implement

strategies as a response to a firm's competitive environment (Dickson & Weaver, 2011:126; Welter & Smallbone, 2011:112). Nieto and Santamaria (2010:62) posit that networks allow firms to gain access to resources they need and learn new capabilities from networking partners that boost technological capabilities and innovation. McEvily and Zaheer (1999:1152) share similar views that the greatest value of networks for entrepreneurial firms is the access of resources and capabilities needed to compete effectively in the market place. In competitive environment, effective social capital is crucial if firms are to benefit. Effective social capital focuses on the internal social capital and external social capital. External social capital is crucial for acquiring new knowledge that add value to firms and the internal social capital is essential in transforming the gained knowledge that support the exploitation of entrepreneurial opportunities by creating and successfully using competitive advantage.

It is argued that internal and external social capital can be more beneficial for market oriented firms which are engaged on acquisition, dissemination, and utilisation of the market intelligence to attain firm performance. Kohli and Jaworski (1990:3) define market orientation as the "organisation-wide generation of market intelligence, dissemination of market intelligence across departments, and the organisation-wide responsiveness to market intelligence". Through market intelligence, a firm gathers information pertaining to current and future needs of customers, exogenous factors outside the firm that may influence current and future needs of customers and competitive action which sustain competitive advantage. The dissemination of market intelligence involves sharing existing and anticipated information throughout the firm to develop a common understanding of all workers so that the firm's effort is directed to a common goal (Kuratko & Audretsch, 2009:3). The market responsiveness focuses on altering system and creating appropriate combination of resources that provide competitive advantage over rivals in exploiting opportunities at hand with the objective to maximize customer satisfaction (Baker & Sinkula, 2009:457; Gorry & Westbrook, 2011). Examining this critically, it reflects the learning process that follows the same pattern of information acquisition, assimilation, dissemination and storage (Ireland *et al.*, 2001:157).

In this regard, it becomes relevant to review organisational learning theory to explain how firms acquire competitive advantage through learning process that can partly be enhanced by networking. It is from this background the next section presents the review of organisational learning theory.

2.5.2   Organisational Learning Theory

Organizational learning theory explains how firms develop its knowledge base over time and deploys its stock of knowledge to achieve performance which in turn creates wealth (Ketchen *et al.,* 2007:379). The literature identify two types of firm's knowledge explicit (articulable) and tacit (unarticulated) of which most of it resides in senses, movement skills, physical experiences, and intuition (Nonaka & Krogh, 2009:635). Both explicit and tacit knowledge are relevant to opportunity seeking and advantage seeking behaviours (Lane & Lubatkin, 1998:462). In this view, organisational learning is a pillar of strategic entrepreneurship that engages on both opportunity-seeking and advantage-seeking activities to attain superior performance and wealth creation (Ketchen *et al.,* 2007:371; Ireland *et al.,* 2003a:967; Ireland & Webb, 2009:469). Ireland *et al.* (2001:57) identifies four stages the learning process goes through: information acquisition, information dissemination, information sharing/interpretation, and organisational memory/storage. This implies that market orientation provides a good base of learning process since it covers all four stages of the learning process (Kohli & Jaworski, 1990:3).

In a dynamic and competitive environment, learning new capabilities is crucial. It enhances a firm's competitive ability to withstand pressure posed by the environmental changes and competitors. Hitt *et al.* (2001:483) suggests that changes taking place in a firm's environment can reduce the value of its current resources (i.e. knowledge) thus continuous organisational learning to generate new knowledge may be necessary to help a firm adapt to its environment. These arguments are supported by previous studies, in strategic management that organisational learning is linked to a firm's ability to innovate continuously and generate competitive advantages of which the development of new knowledge reduces the likelihood that a firm's competences will become outdated. Instead the competences on which the advantages are based remain dynamic and changes are

in accordance with the environmental changes (Ireland *et al.,* 2001:58). In view of the market orientation being involved in continuous scanning of environment, generating market intelligence pertaining to customers and competitors behaviours, and other environmental conditions that may affect customers' demands, it is well placed to generate strategic information required for learning purposes and create sustainable competitive advantage of a firm.

While large and small firms operate in the same environment, they face different environmental challenges. Among other reasons for this is the difference on the resource base between large and small firms that is crucial to make strategic decisions (Nieto & Santamaria, 2010:45). Large firms that enjoy resource advantages, have well developed infrastructure for information/knowledge acquisition, distribution, interpretation once information is collected, and robust decision making structure that sort out knowledge for immediate use and to be stored for future use (Ketchen *et al.,* 2007:379). In the face of environmental turbulence, large firms have options to retrieve relevant knowledge from storage or apply generated new knowledge to solve the problem at hand. Effective knowledge transfer within the firm facilitates timely decision making of which within the context of continuous environmental change, it enables the firm to cope with the environmental change and sustain a competitive advantage which is the core value of the strategic entrepreneurship (Ireland & Webb, 2007b:50).

On the other hand, small firms are limited with resources (Kropp & Zolin, 2005:1; Nieto & Santamaria, 2010:45; Verhees & Meulenberg, 2004:137). In this regard, they cannot afford or acquire sophisticated technologies for information handling or recruit specialised human resource that hold appropriate capabilities, knowledge, skills and experience of knowledge management. In this background small firms are restricted on the type and amount of information or knowledge they collect. Ketchen *et al.,* (2007:379) pointed that small firms, due to their limited storage capacity of information and knowledge, they acquire, distribute and share information and knowledge of immediate use which enable firms to address their mission. This focus enables small firms to enhance continuous exploration of new opportunities (Ireland & Webb, 2007b:50) to keep them alive. However, in a turbulent environment, sustaining competitive advantage requires integration of knowledge which by far

supersedes the capacity of small firms in terms of available expatriates and other relevant resources consequently, undermine the ability of a firm to sustain competitive advantage. The arguments partly explain why small firms are skilled in opportunity-seeking but not skilled in sustaining competitive advantages.

In the context of strategic entrepreneurship that focuses on simultaneous opportunity seeking and advantage seeking behaviour, networking provide learning ground for partners that benefit both small and large firms. Dickson and Weaver (2011:126) and Welter and Smallbone (2011:112) articulate that networks allow firms to gain access to resources and services they need, but do not poses, learn new capabilities, establish legitimacy, and develop a desirable reputation in the market place. Nieto and Santamaria (2010:61) provide evidence that resources and capabilities are beneficial in networks when they are complementary to those of partners in the network and help to narrow the innovation gap between small and large firms. Networking strategy can be beneficial for both small and large firms (Dickson & Weaver, 2011:126) to complement resource needs through learning and sharing of resources with partner firms to attain both opportunit seeking and advantage-seeking behaviours necessary for strategic entrepreneurship. With regards to the concept of resources and their role on competitive capabilities, the next section presents the resource based view that elaborate how resources are determinant of a differential firm's performance.

2.5.3   Resource Based View

The resource based view, is the most theoretical perspective cited within the strategic management (Barney & Arikan, 2005:124) and increasingly entrepreneurship research (Alvarez & Busenitz, 2001). The resource based view state that certain assets and capabilities provide the base for a competitive advantage and thereby set the stage for substantial firm performance and subsequent wealth creation (Barney, 1991:105). The resource based view, deepen our understanding on how firms combine and manage resources to create competitive advantage (Michael, Storey & Thomas, 2002:56; Alvarez, & Barney, 2002:90). In such, the resource based view is positioned to present a way to identify and explain persistent performance differential among firms. Barney (2001:54)

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defines resources as the tangible and intangible assets firm uses to choose and implement its strategies. To yield competitive advantage, resources must be valuable, rare, imperfectly imitable, and none substitutable (Ireland, 2007:7; Barney, 1991:105; Katkalo *et al.,* 2010:1175) by competitors. Katkalo *et al.* (2010:1176) identified several strategic resources that include intellectual property (patents/copy) rights, brand name, reputations, process know how, customer relationships, and knowledge possessed by groups especially skilled employees that could lead into competitive advantage.

Drawing from strategic perspectives, the resource based view suggests that the competitive advantage relies on the resource combination a firm creates or acquires to implement its strategy (Barney & Hesterly, 2006:131). Brush, Greene & Hart, 2001:64) established a link between resources and differential firm performance among firms. This has compelled entrepreneurship scholars to put more emphasis on a particular type of resources to examine and identify differential firm performance on the ability to identify and exploit entrepreneurial opportunities (Ireland *et al.,* 2003a:972). Barney and Arikan (2005:136) affirm that "idiosyncratic resources have stronger influence on performance than industrial characteristics, although the relative firm size effect can vary by industry. While it is evident that idiosyncratic resources are likely to create sustainable competitive advantage, it is only when such resources are managed strategically. Ireland *et al.* (2003a:973) assert that "resources are managed strategically when their deployment facilitates simultaneous opportunity seeking and advantage seeking activities" which are dimensions of strategic entrepreneurship.

Despite of longstanding and application of the resource based view in strategic management and in entrepreneurship research, with the continuous increase in environmental change, the resource based view is considered inadequate to explain differential performance among firms. According to Teece (2007:1344), resource based view is static theory that is not able to cope with the environmental changes taking place at a very fast pace. In this case, the next section reviews the dynamic capabilities theory that is considered relevant to explain differential performance amongst firms in the competitive and dynamic environment.

2.5.4   Dynamic Capabilities Theory

The dynamic capabilities view help to explain how firms attain differential performance in dynamic environment. Teece (2007:13220) posit that in a fast paced environment where customer needs, technological, opportunities, and competitor's activities are constantly changing, it requires unique and difficult to replicate dynamic capabilities. This view argues that superior performance of a firm comes from the ability of a firm to change its resource base in the face of environmental change (Helfat *et al.,* 2007:4; Katkalo *et al.,* 2010:1177). In this view, it implies that the capacity of the firm to create appropriate bundles of resources that match a specific context and its flexibility to adjust the combination of these resources to cope with the pace of environmental change, enhance superior performance of the firm. Dynamic capabilities are defined as the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environment (Teece *et al.,* 1997:516). In this regard, dynamic capabilities view incorporates past learning process as they are acquired through a learning pattern of collective activity, through which it systematically generates and modifies its operational routines in pursuit to improve performance.

However, the subsequent studies on dynamic capabilities refined and extended the definition (Helfat *et al.,* 2007:4; Katkalo *et al.,* 2010:1177; Teece, 2007:1341; Di Stefano, Peteraf & Verona, 2010:1188). Despite of the minor deviation on different definitions given by the different scholars they had something in common, all insisted on the firm's ability to alter its resource base and match with the environmental change. For example, Helfat *et al.* (2007:4) refined the prior definition by defining dynamic capability as "the capacity of a firm to purposefully create, extend, and modify its resource base" to match with the pace of environmental change. Accordingly, dynamic capabilities may sometimes be rooted in performing different tasks that alter the resource base, such as new product development, networking or alliance formation, creative managerial and entrepreneurial acts such as pioneering new markets (Kay, 2010:1211; Katkalo *et al.*, 2010:1178). Referring from this argument, the firm's capacity to alter resource base, influences economic profitability (Helfat & Peteraf, 2009; Wiklund & Shepherd, 2003:1313). Superior dynamic

capabilities enable firms to adapt quickly and effectively to a changing business environment, creating a stream of temporary competitive advantages over time (Teece *et al.,*1997:516).

The importance of dynamic capabilities on firm's performance prompted a need to understand how firm structures its resource base in a dynamic environment. It is from this context that some scholars have focussed their efforts on dynamic capabilities by relating with the firm processes of identifying and exploiting business opportunities and simultaneously aligning resources to cope with the dynamism nature of opportunities (Teece, 2007:1319). The ability of a firm to identify opportunities, depend on the flexibility and supporting environment within the firm and the individual capacities to learn and apply knowledge to identify, evaluate, and shape opportunities. The evaluation process examines the available possibilities to alter resource bundles of which the management choose the most feasible option.

The four theories, networking theory, learning theory, resource based view, and dynamic capability, explain sources of a firm's competitive advantage and persistent differential performance among firms. Based on the resource based view and dynamic capability; it is clear that sustainable competitive advantage requires firms to own or control difficult to replicate dynamic capabilities or resources (Katkalo *et al.*, 2010:11755). While learning theory emphasises on continuous generation of new knowledge and utilisation as a source of competitive advantage, networking theory shows that resource constrained firms can access strategic resources and other capability from networking partners to enhance the firm's capability and be able to withstand challenges in the dynamic environment (Nieto & Santamaria, 2010:63). Critical examining these four theories emphasises on sources of competitive advantage for firms to cope with the fast changing of environmental conditions.

Looking at the nature of the contemporary business environment, for a firm to cope with the speed of environmental change it may requires an efficient system that provide continuous new market information, internalise, and utilise this information in response to environmental changes. While strategic management and entrepreneurship as proposed in previous studies are relevant constructs in dynamic environment, this study considers market orientation could add value in providing

strategic market information of which entrepreneurial oriented firms could choose the most feasible opportunities reflecting current or latent customer needs. On the other hand, strategic management fit more on strategic management of resources and strategies to meet ends (Wiklund & Shepherd, 2003:1313). Combining these three constructs, it is likely to address the puzzle of combining opportunity seekingand advantage seeking behaviour that has proved to be a challenge in most firms. The next section highlights the observed conceptual gaps during the literature review and proposes the ways to bridge the gaps.

2.6 FILLING THE CONCEPTUAL GAP OF STRATEGIC ENTREPRENEURSHIP

Following the limitation of the previous studies on strategic entrepreneurship and the theories behind competitive advantage, the subsequent sections are set out to fill in the conceptual gap by proposing relevant variables considered appropriate for strategic entrepreneurship that fit both small and large firms. While this study acknowledge the effort of previous studies on the effort to search for appropriate constructs, it considers that the previous studies under represented the entrepreneurial orientation and underplayed the role of market orientation which are considered key for strategic entrepreneurship. Based on the networking theory, organisational learning theory and dynamic capability view, the two constructs entrepreneurial orientation and market orientation are both learning and dynamic which fit better to explain how firms strategically respond to the dynamic environment to enhance a sustainable competitive advantage. In this view, the next sections give brief accounts on how these two constructs can be useful to fill in the conceptual gap of the strategic entrepreneurship.

2.6.1   Extending The Dimensions Of Entrepreneurial Orientation

In a dynamic environment characterised by uncertainties and risks, a firm should be entrepreneurial oriented in order to develop opportunity seeking behaviour. Monsen and Boss (2009:74) present good explanation on how the concept of entrepreneurial orientation is used to examine strategic entrepreneurship. Based on Millers' (1983:771) conceptualization of entrepreneurial orientation with three dimensions namely innovation, risk taking, and pro-activeness selected the construct to examine

various aspects of the model of strategic entrepreneurship developed by Ireland *et al.* (2003a:967).

The argument is based on the fact that the degree to which the firm acts entrepreneurially in terms of innovativeness, risk taking, and pro-activeness is related to dimensions of strategic management (Ireland *et al.,* 2001:53) of which the intersection/interface of strategic management and entrepreneurship form strategic entrepreneurship (Ireland *et al.,* 2003a:966). Furthermore, this is viewed as the content of strategy and as "contingent upon the characteristics of a firms' strategic decision making and information management process – processes that broadly reflect strategizing activity" (Covin *et al.,* 2006:59). Moreover, Lumpkin and Dess (1996:137) shared a similar view that entrepreneurial orientation is the strategy making style, processes, and styles of a firm that engages in entrepreneurial activities. Based on these arguments Monsen and Boss (2009:74) considered the three dimensions of entrepreneurial orientation (i.e. innovation, risk taking and pro-activeness) as more elaborate and suggested to replace the concept of applying creativity and development innovation" which was originally conceptualized in a model of strategic entrepreneurship by Ireland *et al.* (2003a:967) (Figure 2.1).

While previous studies have presented empirical evidence on the relationship between entrepreneurial orientation and strategic entrepreneurship the conceptualisation of entrepreneurial orientation is based on Millers' (1983:771) perspective with three dimensions (i.e. innovation, risk taking and pro-activeness). In such, this conceptualization does not capture the full spectrum of the entrepreneurial orientation, it fall short of two dimensions (i.e. competitive aggressiveness and autonomy) as extended and clarified by Lumpkin and Dess (1996:139). This study considers worth to examine all five dimensions (i.e. innovativeness, risk taking, pro-activeness, autonomy, and competitive aggressiveness) in order to understand the nature of the relationship between a complete set of dimension of the entrepreneurial orientation and strategic entrepreneurship.

There are several reasons to justify why it is necessary to examine the relationship between the individual five dimensions of entrepreneurial orientation and the strategic entrepreneurship instead of relying on the three dimensions examined

before. Lumpkin and Dess (1996:137) and Rauch *et al.* (2009:762) pointed that the dimensions of the entrepreneurial orientation varies independently based on the context and the type of industry in which they are examined, which is the case for this study that involves three different industries namely manufacturing, retail, and service. In this view, it is logical to assume that each dimension of the entrepreneurial orientation has different effect in the firm's performance hence a need to examine them individually, rather than relying on the effects of three dimensions that may not necessarily represents the effects of the other two dimensions (i.e. autonomy and competitive aggressiveness). Lumpkin *et al.* (2009:63) examining and measuring an autonomy as a dimension of entrepreneurial orientation, the results on the content validity of the proposed measure of autonomy, confirmed that "autonomy is a separate dimension of the entrepreneurial orientation and not isomorphic with other dimensions of the entrepreneurial orientation". These findings suggest that autonomy as a dimension of entrepreneurial orientation is unique from other dimensions and is likely to have different effect in strategic entrepreneurship.

In dynamic and competitive environment, where opportunities are dynamic, autonomy is crucial because it provides independence and freedom to make timely decisions to seize and exploit opportunities. In the context of strategic entrepreneurship, autonomy is crucial on both opportunity seeking and advantage seeking behaviours that enhance competitive advantage (Ireland & Webb, 2007b:59). The uncertainties and risks presented by dynamic environment offer opportunities (Gifford, 2010). Through use of entrepreneurial mindsets, entrepreneurs are able to identify and exploit opportunities (Kuratko & Audretsch, 2009:1; McGrath & MacMillan, 2000:1). However, the process of opportunity identification and exploitation requires a series of decision making and sometimes involves trial and error especially if it is applicable in turbulent environment where events are less predictable due to fast change of environmental conditions (Teece, 2007:1322; Kuratko & Audretsch, 2009:7) and information asymmetries. In such environment, timely decisions that require autonomy is crucial, because failure to take timely decisions in a firm leaves a gap for rivals to seize opportunities.

2.6.2 Bridging Opportunity And Advantage Seeking Behaviours With Market Orientation

Focussing on opportunity seeking and advantage seeking behaviours as building blocks of the strategic entrepreneurship (Ketchen *et al.,* 2007:373), coupled with the role of market information in opportunity identification, it is clear that these three concepts are inter-related. Consider opportunity, as explained before, as a gap left in the market by those who are currently operating it (Wickham, 2006:433). In simple words, the gap left in the market is the unsaved products and or services in the market. With this understanding, opportunity seeking behaviour is the tendency to seek and generate market intelligence regarding products and or services offered in the market, competitors behaviours, technological dynamics, and other environmental factors that may affect current and future needs of customers (Ireland *et al.*, 2009:28; Shane, 2003:23). The focus is to identify the gap left by current players in the market. This information leads to opportunity identification and it is crucial to the next stage of advantage-seeking that involves exploitation of opportunity. As such, market intelligence is important for both stages of opportunity seeking and the response to opportunity which is advantage seeking. In this case, for a firm to sustain competitive advantage, it must focus on market gaps left in the market to address the unfulfilled and latent customer needs by offering new products and services or in a different way from competitors.

Drawing from the above arguments, it makes sense to think beyond entrepreneurial orientation among antecedents of the strategic entrepreneurship. In this case the focus should be to identify the construct that contribute simultaneously to opportunity seeking and advantage seeking behaviours. While entrepreneurial orientation mentioned to foster opportunity seeking behaviour, it is criticized and not able to sustain competitive advantage. Morris *et al.* (2008:197) contend that "the application of entrepreneurial thinking (mindset) to the firm's core strategy is primarily dealing with the following external questions: Where are the unfulfilled spaces in the market place? How can the firm differentiate itself on a sustainable basis? Where can we lead the customers"? Critical examination of these questions addresses the cultural and behavioural perspectives of the market orientation.

The market orientation contributes to form competitive advantage through customer orientation, competitor orientation and inter-functional coordination that encompasses information sharing within the firm (Narver & Slater, 1990:21). By continuous focusing on customers and competitors the firm is able to differentiate itself from competitors and offer superior or different products and or services to customers on a sustainable basis. In this case, it implies that market orientation generate market information that leads to opportunity identification, products and or services innovation. Likely, strong entrepreneurial orientation is more of response to pursuit of opportunities through innovation (Baker & Sinkula, 2009:445).

There is a reason to believe that the two constructs, market orientation and entrepreneurial orientation are closely related and should be studied together in strategic entrepreneurship. Baker and Sinkula (2009:457) posit that "an entrepreneurial orientation not grounded in a strong market orientation may lead to innovations without the customer appeal". On the other hand, a strong market orientation without a strong entrepreneurial orientation may facilitate a focus on customer satisfaction, but not necessarily an ability to aggressively pursue new market opportunities. This may lead to an overemphasis on incremental innovation or worse, an emphasis on mimicking the successful product, customer service, and administrative support systems of others, rather than the pursuit of new differentiating alternatives".

2.7   CHAPTER SUMMARY

This chapter presented the impact of dynamic environment on a firm's performance and the efforts made by previous studies to devise mechanisms of a firm's response to tides of continuous environmental changes. It reviewed the evolution of strategic entrepreneurship as a widely accepted response mechanism to create a firm's sustainable competitive advantage necessary to develop superior performance and create wealth. In the course of review, it is clear that although strategic entrepreneurship is widely accepted as an appropriate mechanism to respond to challenges posed by the environmental change, the domain is still at an infancy stage and has not developed robust constructs of its own. It emerged as an interface or intersection of entrepreneurship and strategic management. It is from this context,

strategic entrepreneurship suffers the conceptual gap. Other scholars have indicated their concern that it is not clear whether strategic entrepreneurship is a subfield within entrepreneurship discipline, a subset of strategic management, or corporate entrepreneurship, or a separate field.

The review shows that strategic entrepreneurship fosters simultaneous competitive-seeking behaviour (central to entrepreneurship) and advantage seeking behaviour (central to strategic management). However, in practice, the firm faces challenges to simultaneously combine opportunity seeking behaviour and advantage seeking behaviour and previous studies have reported that small firms are more skilled on opportunity seeking behaviours than large firms, which in turn are well skilled on advantage seeking behaviours. Amongst other reasons for this is that advantage seeking is responsible for sustaining competitive advantage that is attained through strategic management of resources during exploitation of the opportunities. Since small firms are confronted by resources scarcity they lack this capacity. For large firms fail to continuously identify new opportunities because of technological inertia, bureaucracy in decision making, internal politics/fighting, and other related factors. In this view, previous studies have treated the fusion of strategic management and entrepreneurship as a set of contested ideas rather than settled issue to open up more innovative studies in the field to further our understanding.

Monsen and Boss (2009:74) reviewed the model of strategic entrepreneurship developed by Ireland *et al.* (2003a:967) that fit both small and large firms, and argued that the concept of "applying creativity and developing innovation" is more elaborated by the entrepreneurial orientation based on Miller's (1983:771) conceptualisation of three dimensions: innovation, risk taking, and proactiveness. Based on this argument, this study view it as under representation of the entrepreneurial orientation construct as clarified and extended by Lumpkin and Dess (1996) to include five dimensions. The review indicates that individual dimensions of entrepreneurial orientation varies independently and have different effects in the firm performance depending on the context and industry in which they are examined. The argument is valid for this study and considers it necessary to examine all five individual dimensions of entrepreneurial orientation instead of relying on three dimensions examined before by Monsen and Boss (2009) which may not necessarily

represent the influence of other two dimensions: autonomous and competitive aggressiveness, extended by Lumpkin and Dess (1996).

Regarding the challenge of attaining simultaneous opportunity-seeking and advantage-seeking behaviours by both small and large firms, this study suggests that previous studies underplayed the role of market orientation in strategic entrepreneurship. By incorporating the market orientation in the strategic entrepreneurship model coupled with the full spectrum of the dimensions of entrepreneurial orientation will enrich the model of strategic entrepreneurship that is geared towards fostering simultaneous opportunity-seeking and advantage-seeking behaviours. Market orientation in this study is thought appropriate because it will enhance continuous generation of market intelligence which aid to identify opportunities and anchor a strong entrepreneurial orientation to these opportunities that are most likely to be well received by customers.

To accommodate firms with scarce resources, this study considers networking will allow such firms regardless of their sizes to complement their resource needs from networking partners. Viewing this way, the strategic entrepreneurship model will fit both small and large firms and enable them to simultaneously acquire opportunity-seeking and advantage-seeking behaviours that allow them to develop superior performance.

In view of the above, the next chapter presents in details how SME's apply the constructs: entrepreneurial orientation, market orientation and networking as dimension of the strategic entrepreneurial response to face challenges in competitive and dynamic environment.

CHAPTER LAYOUT – CHAPTER THREE

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CHAPTER THREE

3   STRATEGIC ENTREPRENEURIAL RESPONSE

3.1   INTRODUCTION

This chapter reviews relevant literature that seeks to examine the relationship between dimensions of strategic entrepreneurial response (SER) namely market orientation, entrepreneurial orientation, and networking capability on SME performance. It examines the possible influence of control variables in the relationship between dimensions of strategic entrepreneurial response and SME performance, presents the research conceptual framework and the possible contribution of the study in the entrepreneurship literature. The details of each construct, namely market orientation, entrepreneurial orientation, and networking capability and their relationship with SME performance are discussed.

3.2   STRATEGIC ENTREPRENEURIAL RESPONSE

The dynamic and competitive environment poses intense pressure on firms operating in this environment and firms have no choice but to face this reality. In the effort to address challenges of dynamic and competitive environment, strategic entrepreneurship emerged as an appropriate strategic orientation in which firms are required to acquire and practice simultaneously opportunity seeking behaviour and advantage seeking behaviour, in order to attain superior performance and wealth creation (Ireland *et al.,* 2003a:963; Ketchen *et al.,* 2007:371). According to Ireland (2007:9) and Ireland *et al.* (2003a:966) opportunity seeking behaviour is an entrepreneurial behaviour associated with identification and exploitation of the entrepreneurial opportunities, while advantage seeking behaviour is the component of strategic management intended to sustain competitive advantage. From this context, the intersection of entrepreneurship and strategic management result into strategic entrepreneurship that enable firms to respond to the current environmental changes and sustaining competitive advantage for the future (Ireland & Webb, 2007b:50).

Deriving from strategic entrepreneurship, the concept of strategic entrepreneurial response in this study is developed based on the interaction between SMEs and the environment in which they operate and the way SMEs respond through simultaneous opportunity-seeking and advantage-seeking behaviours to cope with the changes taking place (Ketchen *et al.*, 2007:373; Ireland, 2007:9; Ireland *et al.*, 2003a:966). Figure 3.1 presents a conceptual framework, which shows the interaction of SME's and environmental forces. In real life SMEs operate in an open environment whereby they are confronted by several environmental forces. These forces can be summarised into four main categories namely: customer behaviour, competitive actions, technological dynamics, and regulatory environment. In a competitive environment, as in the case of an open market economy, these forces are dynamic and keep changing at a fast pace (Kuratko & Audretsch, 2009:7), which create big pressures on SMEs. The survival of SMEs in such an environment depends on how they respond to these forces and to attain competitive advantage that leads to performance. In this view, firms need to have a system to monitor customer behaviour, competitor's actions, technological dynamics, regulatory environment, and adjust inter-functional operations to respond to these forces.
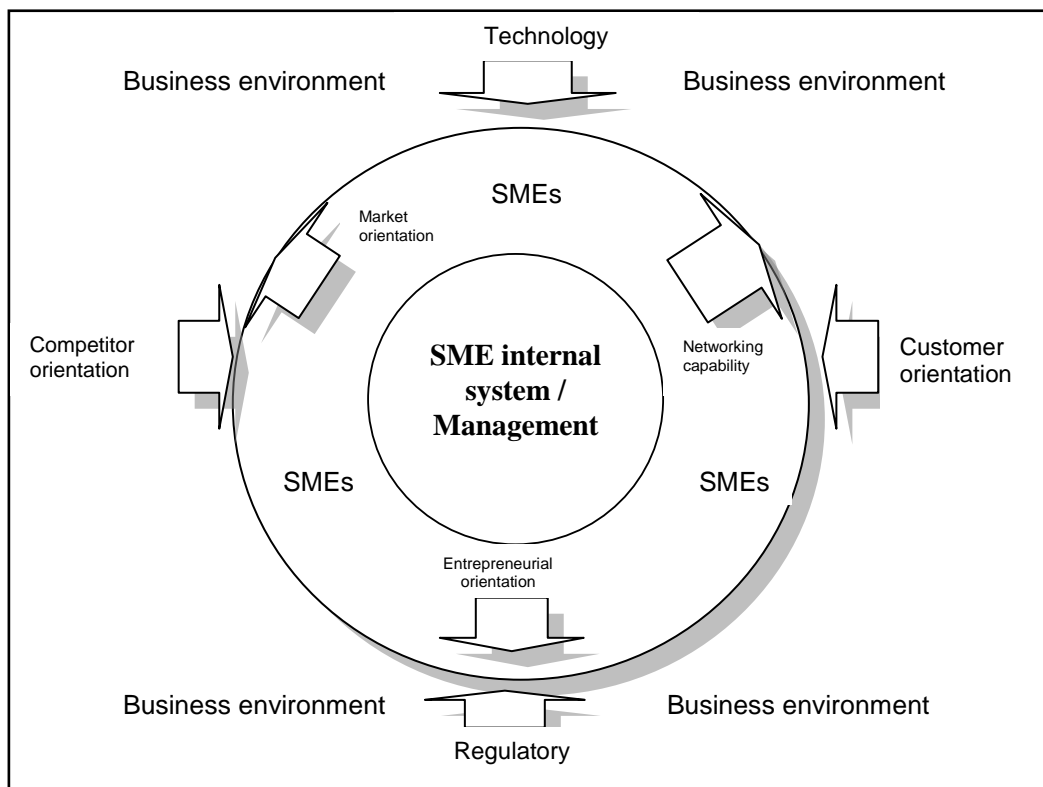
Figure 3.1:   Interaction of SME and environmental forces

What can be derived from the above is that environmental forces trigger impulses to the internal system of the firms. These changes in the environment can be a result of changes in competitor's actions, customers and social behaviours, as well as changes in technology, and or legal, regulations and ethical standards (Morris *et al.,* 2008:4). Changes or disturbance of environmental forces are stimuli to a firm's internal system that respond through adopting new strategies or adjusting existing strategies in order to adapt new environments. The adopted or adjusted strategies aimed at giving firms competitive advantage over competitors that lead to a long term performance (Man, Lau & Chan, 2002:126). In this study, the tendencies of entrepreneurial firms to respond to changes in an external environment, in order to maintain or attain sustainable superior performance over competitors, are referred to as a strategic entrepreneurial response.

For the purpose of this study, the concept of strategic entrepreneurial response is defined as a set of actions, measures or posture taken by the entrepreneur through simultaneous opportunity seeking and advantage seeking behaviours to counteract the impact of changes in customer behavior, technological dynamics, competitor's actions, and changes in legal, regulatory, and ethical standards and be able to maintain or attain superior performance. In a competitive business environment, entrepreneur's survival depends mostly on how they respond to these forces. When confronted by the market competition that is explained by the environmental forces, entrepreneurs are likely to adopt entrepreneurial strategies such as entrepreneurial orientation, market orientation and/or networking with individuals or other firms. The response in most cases, will involve a combination of strategies, which are determined by circumstances such as availability and accessibility of resources, convenience of implementation and the capacity in terms of supporting infrastructure and human resources.

The market orientation fundamentally generate market intelligence that gives a firm ability to understand customer's preferences, competitor's actions, technology dynamics, focusses on long term benefits, survival and growth. It involves inter-functional coordination within the firm, which allows different department or individuals to share market information and take appropriate measures or actions (Narver & Slater, 1990:21; Walter *et al.*, 2006:547) as a response to face the

environmental challenges. Through generated market information, entrepreneurial firms, through the use of an entrepreneurial mindset, are able to identify opportunities presented by discontinuities and the environmental dynamics (Kuratko & Audretsch, 2009:7; Schindehutte & Morris, 2009:246) and exploit them before competitors do so. This is possible if a firm has autonomy to make timely decisions, is willing to take calculated risks, proactive in service and product offering, continuous innovation to offer unique value added products to customers and competitive aggressiveness to face rivals regardless of what it takes to win (Lumpkin & Dess, 2001:431).

The literature shows that firms face challenges to integrate opportunity seeking behaviour and advantage seeking behaviour to sustain competitive advantage (Ireland & Webb, 2007b:51; Ketchen et al., 2007:374) necessary in a competitive environment. This study argues that integrating market orientation and entrepreneurial orientation in strategic entrepreneurship will sustain competitive advantage of the firm. Market orientation is necessary to continuously generate market intelligence and share the information within the firm which is a learning process that creates competitive capability (Song, Wang, & Parry, 2010:565). The generated market information also form a source of opportunity identification, which is necessary to build a strong entrepreneurial orientation as to identify and choose those opportunities that are mostly likely to be attractive and well received by customers (Baker & Sinkula, 2009:457; Gorry & Westbrook, 2011). In a dynamic and competitive environment that demand aggressive product development, and customer support systems and highly adaptable product processes, a strong entrepreneurial orientation (Baker & Sinkula, 2009:457) and market orientation may be essential to success.

Baker and Sinkula (2009:443) postulate that "market orientation and entrepreneurial orientation are correlated, but distinct constructs". In strategic perspectives, market orientation reflects the degree to which firms are driven by customers and competitor's intelligence and inter-functional coordination (Narver & Slater, 1990:21). This enables a firm to understand current, future and latent needs of the customers, and offer more value. It understands short and long term strategies of competitors, which enables the firm to come up with the different strategies that differentiate from

competitors. The inter-functional coordination ensures sharing of the generated market intelligence among workers to contribute to a common goal (Kuratko & Audretsch, 2009:3). On the other hand, entrepreneurial orientation reflects the degree to which a firm's growth objectives are driven by the identification and exploitation of untapped market opportunities (Shane, 2003:4; Shane & Venkataraman, 2000:211), that can be identified through market intelligence. This implies that continuous generation of market intelligence creates a source of opportunities from which entrepreneurial orientation can identify and choose those opportunities which are related to a customer's needs.

A balance of entrepreneurial orientation and market orientation is essential for strategic entrepreneurial response. According to Baker and Sinkula (2009:457) firms with strong entrepreneurial orientation without a strong market orientation are likely to identify market opportunities, but not able to adequately prioritize such opportunities with the greatest value to customers. As a result, an entrepreneurial orientation not grounded in a strong market orientation may lead to innovations which may not catch the taste and preferences of customers. Consistently, a strong market orientation without a strong entrepreneurial orientation may facilitate a focus on customer leading to an over-emphasis on incremental innovations or copying of the successful product and customer services of others rather than exploring new differentiating initiatives (Baker & Sinkula, 2009:457). This implies that a balance between market orientation and entrepreneurial orientation is important for a firm to attain and sustain competitive advantage required for sustainable performance.

The implementation of the two strategies namely market orientation and entrepreneurial orientation, requires resources (Covin & Slevin, 1991:15). For SMEs, which are usually confronted by shortage of resources (Kropp & Zolin, 2005:1; Nieto & Santamaria, 2010:45; Verhees & Meulenberg, 2004:137), networking strategy is added in this study because it is considered appropriate for SMEs to enable them to complement resource requirement from other firms, which subsequently give SMEs competitive advantage over the rivals (George *et al.*, 2001:269; Walter *et al.*, 2006:548; Watson, 2007:854). Collectively, the three strategies namely market orientation; entrepreneurial orientation, and networking capability identified in this study are conceptualized as strategic entrepreneurial response over the rivals. This

implies that entrepreneurial firms operating in a dynamic and competitive environment respond to environmental forces through market orientation, continuously generate market intelligence, share market information within the firm, and respond to the market intelligence through entrepreneurial orientation that aggressively pursue new market opportunities to satisfy current, future, and latent customer needs.

Since the implementation of market orientation and entrepreneurial orientation strategies require resources, which are scarce for most SMEs, the ability of SMEs to create effective networking considered appropriate to complement resource needs. It is from this background that the next sections presents a review of the dimensions of strategic entrepreneurial response namely market orientation, entrepreneurial orientation and networking capability.

3.3 MARKET ORIENTATION

Although business literature has long emphasized the significance of market orientation to the firms performance, Kohli and Jaworski (1990:2) and Narver and Slater (1990:21) were the first authors to operationalize the construct (Ngai & Ellis, 1998:119; Soehadi, Hart & Tagg, 2001:286; Verhees & Meulenberg, 2004:135;) and establish the empirical support for its relationship with performance (Jaworski & Kohli, 1993:63; Slater & Narver, 1994:52). The first authors Kohli & Jawoski (1990:2) and Narver and Slater (1990:21) conceptualised the two perspectives; the behavioural and cultural perspectives, respectively. The details of each perspective are given in the following sections.

3.3.1 Behavioural Perspective Of Market Orientation

According to Kohli and Jaworski (1990:6) the concept of market orientation refers to "the organization-wide generation of market intelligence pertaining to current and future needs of customers, dissemination of the intelligence across departments, and organization-wide responsiveness to the intelligence". This definition presents behavioural perspective in market orientation. Consistently, Matsuno, Mentzer and Rentz (2005:2) emphasize that market orientation is a firm's process that is engaged

in generation of market intelligence and dissemination of market intelligence across departments. Baker & Sinkula, (2009:457) argued that market orientation is more than the scanning of external environment or sharing customer information, it is the commitment to respond to the customer's needs with the objective of maximizing customer satisfaction. The three processes namely generation, dissemination, and responsiveness to the market intelligence are very crucial in the market orientation process especially in dynamic and competitive environments where events are constantly changing and future is less predictable (Kuratko & Audretsch, 2009:7).

The generation and dissemination of the market intelligence provides a room for a firm to learn emerging or new customers and competitor's behaviour as time goes and through lessons gained, firms develop or renew strategies as a response to the existing environmental conditions. In view of the importance of these processes, namely generation, dissemination, and response to market intelligence in market orientation the next sections give a brief account of each step in the process of market orientation.

3.3.1.1 Generation of market intelligence

In dynamic and competitive environment, generation of market intelligence is focused on scanning the business environment, gather and analyse information pertaining to customer behaviours, external factors that influence customer needs, and competitor's actions (Wood, Bhuian & Kiecker, 2000:214). The customer behaviour changes frequently, especially in the open market economy where consumers are exposed to several brands that may influence changes of taste and preferences due to quality, price, and or brand reputation. Keh *et al.* (2007:607) emphasizes that a deep understanding of customers, such as their purchasing habits, psychological makeup and lifestyles can help SMEs to conduct better market segmentation and find new market niches. This implies that by having such information at hand, through creativity and innovation SMEs are in a position to offer more value to customers.

The process of market intelligence generation by the firm captures the external factors that may influence current and future needs of customers, manage investment risks, as well as challenge competitors to the market (Keh *et al.,* 2007:593). Such factors include technological change, competitive intensity, government regulations, demographic dynamics, and social economic factors (Ireland *et al.*, 2009:28; Shane, 2003:3). Furthermore, to understand what and how competitors are doing is crucial to enable the firm to offer new and or different products or similar products in a different way to differentiate the firm from other players in the market. Keh *et al.* (2007:596) postulates that "information is a powerful knowledge resource that can enhance competitive advantage". In light of this, the acquisition and utilization of information regarding customers, competitors and other external factors improve market decisions that place a firm at a competitive market position over rivals. According to Song *et al.* (2010:565) the market information, if used properly, can reveal latent needs which exist and are not addressed or not known to competitors.

The generated market information is only useful if it is used properly. Keh *et al.* (2007:593) observed no evidence supporting the positive impact of information acquisition to firm performance; however, they reported positive relationship between information utilization to market decisions and subsequently firm performance. This implies that information generation should be accompanied by effective utilization to realize firm performance. Song *et al.* (2010:565) supports this argument by putting more emphasis on formal processes of information acquisition and utilisation that leads to good performance. The next section presents the dissemination of market intelligence, which is a step towards information utilisation.

3.3.1.2 Dissemination of market intelligence

Dissemination of market intelligence involves sharing of market information once generated (Matsuno *et al.*, 2005:2). Dynamic and competitive environments require owners/managers to communicate effectively, share information, and generally keep the employees aware of what is going on in the business environment (Slater & Narver, 1995:69). This process engages all departments or all employees in the firm to ensure vertical and horizontal flows of information within and between

departments (Kuratko & Audretsch, 2009:3; Kohli, Jaworski & Kumar, 1993:468). This stage is very important because it intends to share and internalise market information to all workers within the firm. It enables the firm to understand what and how competitors are operating, their key competitive strength and weakness. This information helps the firm to come up with the most competitive market strategy that offers value to customers and enables firms to win competitors (Gorry & Westbrook, 2011). Keh *et al.* (2007:607) also support this argument by pointing that with the valuable market information SMEs evaluate their options, identify the most feasible opportunities and thus reduce risks implied in the investment.

The strategic implication of dissemination of market information within the firm is a learning process among workers and adds a firm's knowledge, which forms the base for a competitive advantage. Slater and Narver (1995:71) echoed similar views by saying that because of its external focus, marketing is well positioned to appreciate the benefits of market driven learning and be lead advocate of the market oriented entrepreneurial values that constitute the culture of learning organization. Baker and Sinkula (1999:412) argue that learning orientation can facilitate both incremental and discontinuous innovation of which without a strong market orientation can lead an organization astray. With the appropriate information and effective sharing of the information SMEs can have a better understanding of their customers' changing needs and respond accordingly. With this background the next section presents how SMEs respond to the market intelligence.

3.3.1.3 Responsiveness to market intelligence

The responsiveness is the action taken in response to intelligence that is generated and disseminated (Kohli, Jaworski, and Kumar, 1993:468). It is engaged in building competitive advantage over rivals by altering tangible and intangible resources and creates a combination of resource base that is valuable, and imperfectly imitable by competitors to sustain a competitive advantage (Barney, 1991:105). It promotes, distributes, and price goods and services that respond to the current, future, and latent needs of customers by utilising market segmentation, product differentiation, cost leadership and other marketing strategies.

3.3.2 Cultural Perspective Of Market Orientation

Narver and Slater (1990:21) conceptualized the market orientation construct based on cultural perspective and defined it as "the organizational culture that most effectively and efficiently creates the necessary behaviours for the creation of superior value to customers and thus continuous superior performance for the business". Slater and Narver (1995:67) emphasize that market orientation is the principal cultural foundation of learning organization, and provide strong evidence that a learning orientation is based on a market orientation. Consistently, Baker and Sinkula (1999) support this argument by pointing out that market orientation provides ground for learning orientation and a learning orientation has a positive impact on the performance of the firm. The premise that market orientation provides ground for learning is based on the fact that market orientation is engaged on the acquisition of the market information and dissemination of the market intelligence, which follows the same paten of learning.

Narver and Slater (1990:21) state that market orientation consists of three behavioural components namely; customer orientation, competitor's orientation, and inter-functional coordination. This implies that the firm has to scan the external business environment and generate market information pertaining to customers and competitors' behaviours and capitalise on effective inter-functional coordination of the market information. The subsequent sections present a review of the three cultural components of the market orientation and their influence on SME performance.

3.3.2.1 Customer orientation

Customer orientation is intended to generate information regarding the changes of customer behaviours in terms of taste and preferences (Gorry & Westbrook, 2011; Li *et al.* 2008:115). Li *et al.* (2006:107) argues that firms with high market orientation continuously generate market information and examine alternative sources of competitive advantage to determine how it can most effectively create superior value for its present and future target customers and enhance performance. The process involves generating information relating to other environmental factors that have

influence on customer behaviours. Such factors include, but are not limited to, technological change and demographic dynamics, and government regulations (Morris *et al.,* 2008:4; Ireland *et al.,* 2009:28; Shane, 2003:3). The information enables the firm to capitalize its products and service strategies to offer more values to customers to satisfy their current, future, and latent needs. The literature provide evidence that firms which monitor customers' needs tend to improve product offering that target to fulfil the needs of customers and reduce the risks of developing products or services that have no appeal to customers (Keh *et al.*, 2007:607). In this view, firms focussing on customer needs are likely to enhance the firm's performance because products and services developed are targeted to address the immediate needs of the customers.

3.3.2.2   Competitor orientation

The open market economy has intensified competition in the business environment and it has changed the way businesses are managed. Adoption of any business strategies such as differentiation, cost leadership, niche market and any other competitive strategies in the competitive business, requires to understand what and how competitors are doing so as to be able to offer different products or similar products in different ways (Porter, 1996:64) . As such, competitor orientation is the study of competitor behaviours to identify strengths and weaknesses in order to design a competitive strategy that capitalise on the competitor weaknesses and withstand competitor's strength. Lumpkin and Dess (2001:434) contend that "firms create, acquire, and leverage resources to achieve competitive advantage, which they tend to defend". In this regards, for new entrants must study thoroughly the environment they are to operate by critically examining competitors' behaviour, their strengths and weaknesses, to be able to identify the entry point that give competitive advantage over the rivals.

3.3.2.3   Inter-functional coordination

Inter-functional coordination is engaged in pulling together internal resources and match with the strategy and the problem at hand to respond to the current, future and latent needs of customers. Alvarez and Busenitz (2001:762) argue that unless it

is coordinated, a firm's knowledge, or information/intelligence "is often dispersed, fragmented, and sometimes even contradictory". In this view, inter-functional coordination is responsive to create a bundle of resources within the firm by relying on locally available resources to create competitive advantages if it own or control resources which are rare, valuable, inimitable, and are not easily substitutable by competitors. This implies that resources have potential to add value to products and services intended to be offered, they are not easily available to competitors, the combination of such resources is not easily understood by competitors to allow copying/imitations or is restricted through property right. In such, this can be achieved through inter-functional coordination of the resources within the firm.

In this case, it is necessary to analyse, identify the most relevant resources, information and or knowledge the firm has and share it with the rest of the employees in the firm to develop a common understanding among workers, of which their efforts contribute to a common objective. The strategic implication of the inter-functional coordination is to build a result oriented climate throughout the firm (Thomson, 2003:9). This is consistent with a dynamic capabilities view of organisations in which the learning between and the coordination and reconfiguration of key organisational competencies leads to competitive advantage (Teece *et al.,* 1997:520). In this view, well-coordinated resources in the firm create competitive advantage of the firm over rivals.

3.3.3 Association Of Market Orientation And Performance

Previous studies using samples from United States of America (USA), supported positive relationship between market orientation and firm performance (Jaworski & Kohli, 1993:63; Narver & Slater, 1990:32; Slater & Narver, 1994:52). Subsequent work in this stream examined the relationship between market orientation and performance in non USA, but primarily Western contexts reported mixed findings. Studies conducted in Britain (Diamantopoulos & Hart, 1993:115; Greenley, 1995:8) for example, reported weak and in The Netherlands (Langerak, Hultink, & Robben*,* 2004:88) found no significant direct relationship between market orientation and firm performance. At the same time other scholars reported strong and positive results in several Western contexts such as Germany (Homburg & Pflesser, 2000:457), the

United Kingdom (Harris & Ogbonna, 2001:163; Verhees & Meulenberg, 2004:147) and Australia (Farrell 2000:215).

Other studies for non USA built on the early work on market orientation and performance conducted in Western context to examine the relationship between the variables, are those that used non-Western samples. The sample includes China (Li *et al.*, 2008), Thailand (Powpaka, 1998), Hong Kong (Ngai & Ellis, 1998), Taiwan (Horng & Cheng-Hsui, 1998), Saudi Arabia (Bhuian, 1998), Indonesia (Soehadi *et al.,* 2001) and Ghana (Appiah-Adu & Singh, 1998). However, contrary to Jaworski and Kholi's (1996:131) observation that the effect of market orientation on business performance generalises across national cultures, this has not been the case, as other replicated studies done in other non US countries have failed to establish this linkage (Diamantopoulos & Hart, 1993:115; Greenley, 1995:8; Han, Kim & Srivastava, 1998:38; Harris, 2001:28; Langerak *et al.*, 2004:88; Ngai & Ellis, 1998:121). The inconsistence of the result might have been contributed by several factors such as differences among countries in terms of entrepreneurial culture, social values, and political ideologies (i.e. communists versus capitalists), to mention but a few.

3.3.4 Moderating Effect On Relationship Between Market Orientation And Performance

Following the inconsistence of the findings, some authors have suggested that the relationship between market orientation and performance is moderated by additional variables such as market and technological turbulence (Greenley, 1995:9; Han *et al.,* 1998:35) and competitive intensity (Homburg & Pflesser, 2000:458). But again, these results are inconclusive with some scholars finding no significant moderating effects of market turbulence (Han *et al.,* 1998:39), competitive intensity, and technological turbulence in this relationship (Langerak, 2003:109; Jaworski & Kohli, 1993:64; Harris, 2001:33) and conclude that the association between market orientation and performance is robust, and is not affected by changes in environmental variables.

Other scholars studied the moderating effects of the three dimensions of the entrepreneurial orientation namely: innovativeness, pro-activeness, and risk taking on market orientation and performance relationship. Their findings revealed that the first two dimensions of the entrepreneurial orientation namely innovativeness and pro-activeness have a positive and statistical significant moderating effect in the relationship between market orientation and performance (Li *et al*., 2008:128). This implies that through market orientation firms are able to understand current, future, and latent needs of customers and studies the competitor's behaviours. As a response to the market intelligence, firms innovatively, develop unique products and services that offer more value to customers and proactively present these products and services to the market before competitors. Li *et al.* (2008:119) argues that pro-activeness enables market oriented small firms to gain first mover advantage and enhance its performance. These findings are in line with the results reported earlier that entrepreneurial orientation played an influential role on the acquisition and utilization of market information and also has a direct effect on performance (Keh *et al*., 2007:592).

Hamel and Prahalad (1994:126) argue that market oriented firms focused on articulated customer needs, may miss opportunities for developing new products that customers cannot articulate. Zahra (1993:9), supporting this argument suggest that firms to address unarticulated needs should adopt a proactive posture focused on innovations, which meet emerging and unarticulated customer needs. This may imply that the interaction of market orientation and entrepreneurial orientation is critical to the performance of the firm. While market orientation enhance firm performance by satisfying customer's articulated needs and by facilitating internal sharing of competitors information and cross-functional coordination (Narver & Slater, 1990:21) entrepreneurial orientation will increase information acquisition and utilization in innovative, proactive and risk taking ways to capture customers' unarticulated needs (Keh *et al.,* 2007:596).

3.3.5 Influence Of Environment

The influence of the environment in the relationship between market orientation and enterprise performance was studied and reported to be strongest and typically found

in USA environments. This was based on the results, drawn from data collected in Hong Kong (Ngai & Ellis, 1998:122) and supported by other findings reported in Britain (Greenley, 1995:7), the Netherlands (Langerak *et al.,* 2004:88), and New Zealand (Gray, Matea, Boschoff & Matheson, 1998:893). However, this notion did not last long since other studies have reported strong and positive results in several non-US countries such as Germany (Homburg & Pflesser, 2000:457), Australia (Farrell, 2000:215), and China (Li *et al.*, 2008:125). The inconsistence of the findings implies that there are other factors than those examined in the previous studies that influence the relationship. This prompts a need to study the relationship between market orientation and performance in specific contexts, such that one can state empirically the importance of this construct in competitive advantage and firm performance.

3.4   ENTREPRENEURIAL ORIENTATION

According to the entrepreneurship literature, the concept of entrepreneurial orientation originated from the work of Khandwalla (1977) and and Miller (1983:771). Firms with high entrepreneurial orientation tend to continuously scan and monitor the environment in which they operate in order to find new opportunities for exploitation and strengthening of the competitive positions. High entrepreneurial orientation is closely related to first mover advantage and tendency to take advantage of emerging opportunities, which ultimately has a positive influence on performance (Li *et al.*, 2008:119). This implies that through proactive behaviour firms take risks by innovating products, services, and or administrative processes to address unarticulated need of the customers and gained competitive advantage. In this view, it is important to examine the dimensions of the entrepreneurial orientation and understand how they contribute to gain competitive advantage of a firm.

3.4.1 Dimensions Of Entrepreneurial Orientation

Miller's (1983:771) conceptualization of entrepreneurial orientation identified three dimensions (i.e. innovation, risk taking, and pro-activeness) which define an entrepreneurial firm. Covin and Slevin (1991:8) referred to entrepreneurial orientation as a strategic posture reflecting how firms implicitly and explicitly choose to compete.

However, a popular model of entrepreneurial orientation suggests five dimensions of entrepreneurial orientation namely: autonomy in decision making and implementing business ideas, risk taking in business venture, innovativeness in developing products and services, proactive in pursuing opportunities, and competitive aggressiveness over rivals (Lumpkin & Dess, 1996:137; Lumpkin & Dess, 2001:431; Walter *et al.*, 2006:557). Based on this background, the subsequent sections briefly highlight the strategic implications of the individual dimension of the entrepreneurial orientation namely innovation, autonomy, risk taking, pro-activeness and competitive aggressiveness.

3.4.1.1 Innovation

In competitive market environments, creative and innovative firms always find ways to serve their customers as well as form new bases on which to differentiate their products and or services from those of competitors (Hooley, Greenley, Cadogan, & Fahhy, 2005:19). Introduction of innovative new products and services is critical and enables firms to increase market share, improve performance, and enhance survival (Tang & Murphy, 2012:41). In this view, innovation refers to a willingness to support creativity and experimentation in introducing new products/services and novelty, technological leadership, and R&D in developing new processes (Lumpkin *et al.*, 2009:56; Lumpkin & Dess, 2001:431; Monsen & Boss, 2009:75). The intention of innovation is to offer more value to customers and build competitive advantage of the firm. The literature identifies two categories of innovation namely incremental and radical (Lumsdaine & Binks, 2009:179). The incremental innovation is built on existing technologies, products, services and processes with minor improvements while the radical innovation is associated with the break through or discontinuities.

According to Ireland *et al.* (2003a:981) incremental innovation result from learning how to better exploit existing capabilities that contribute to competitive advantages. On the other hand radical innovation is derived from identifying and exploiting entrepreneurial opportunities through new combination of resources to create new competitive capabilities that lead to competitive advantage. Lumpkin and Dess (1996:142) citing the concept of "creative destruction" introduced by Schumpeter (1942), pointed out that a firm create wealth when existing market structures are

disrupted by the introduction of new goods or services that shift resources away from existing firms and cause new firms to grow. In this argument it implies that radical innovation renders existing technologies obsolete. Consequently, new entrants take advantage of new innovations to attain competitive advantage that leads to a firm's performance. This is consistent with previous studies that indicated positive relationship between innovation and firm performance. (Li *et al.*, 2008:128).

3.4.1.2   Autonomy

Autonomy gives firm members the freedom and flexibility to develop and enact entrepreneurial initiatives with minimum or no interference (Lumpkin *et al.*, 2009:47). This is crucial in dynamic and competitive environment where timely decisions are expected to deploy resources to allow process to identify and or discover and seize opportunities. Lumpkin and Dess (1996:140) and Lumpkin & Dess (2001:431) define autonomy as the "ability to work independently, make decisions, and take actions aimed at bringing forth a business concept or vision and carrying it through to completion". Based on this definition, Lumpkin *et al.* (2009:63) pointed out that autonomy in entrepreneurial orientation context is clearly a vital aspect of entrepreneurial value creation and central to the notion of strategic entrepreneurship.

In the context of strategic entrepreneurship, autonomy enhances both opportunity-seeking and advantage-seeking behaviours because both processes require a set of decision making. In this case, individual employees in the firm needs freedom to exercise decision making that leads to continuous identification and exploitation of opportunities. Previous studies in small firms, have examined the extent of autonomous behaviour by investigating how centralized the leadership is and how often managers delegate authority and rely on technical expertise (Lumpkin & Dess, 1996:141). Miller (1983:773) reported that in "small firms high level of entrepreneurial activities were associated with chief executives who maintain strong central authority and acted as the firm's knowledge leader and being aware of emerging technologies by being aware of emerging technologies and markets". Since small firm's decisions are centralized to the owners or managers it is crucial for timely decision that leads into competitive advantage of the firms.

3.4.1.3 Risk taking

Commitment of resources in the dynamic environment where factors are continuously changing, involves risk taking. Lumpkin *et al.* (2009:56) and Monsen and Boss (2009:75) describe risk taking as a tendency to take bold actions such as venturing into unknown, new markets, committing a large portion of resources to ventures with uncertain outcomes and or borrowing heavily. The literature differentiates between risk and uncertainty. According to Alverez and Barney (2007:14) a decision making context is risky if at the time of decision making, decision makers were exposed to a situation where there were adequate information to anticipate the possible outcome associated with that decision, and the probability of each of the possible outcomes. In contrast, a decision making context is uncertain, if at the time of decision making, decision makers are not exposed to adequate information to anticipate neither the possible outcome, nor the probability of those outcomes.

In this case, entrepreneurs are likely to operate in risky and not uncertain environments where there is a possibility of predicting the possible outcome of their investments (Wickham, 2006:10). It is from this context, entrepreneurs are reported to take calculated risks when they decide to invest. In the events of entrepreneurs to take calculated risks, they used to collect appropriate information. Keh *et al.* (2007:596) argues that information acquisition and utilization tend to be risk as they involves substantial effort and expenditures that the outcome of these activities not necessarily ensure realization of expected returns, due to several influencing factors. However, entrepreneurial orientation reported to increase information acquisition and utilization which implies that entrepreneurial oriented firms are likely to be leaders in information acquisition and utilization that subsequently enhance firm performance (Keh *et al.,* 2007:596).

3.4.1.4 Pro-activeness

Pro-activeness is an opportunity seeking behavior, forward looking perspective involving the introduction of new products or services ahead of the competitors and acting in anticipation of future demand to create change and shape the environment

(Lumpkin *et al.,* 2009:56; Monsen & Boss, 2009:75). While market orientation is associated with the incremental innovations to improve existing products and or services through a tendency of generating market intelligence focused on customers and competitors. Pro-activeness support disruptive innovation that focuses introducing new products or services in markets or creating new markets as a response to future needs and desires to shape the environment. In such, proactive behaviour is relevant in strategic entrepreneurship, since it keeps the firm in a position to lead competitors in the industry.

According to Lumpkin and Dess (2001:434) pro-activeness refers to "how firms relate to market opportunities by seizing initiative and leading in the market place, it does so by seizing initiatives and acting opportunistically in order to shape the environment that is to influence trends and perhaps even create demand. Chen and Hambrick (1995:457) pointed that a firm should be both proactive and responsive to its environment in terms of technology and innovation, competition, customer and other environmental forces that may impact performance of the firm. Chen and Hambrick (1995:457) further argue that pro-activeness involves taking the initiatives in effort to shape the environment to one's advantage; responsiveness involves being adaptive to competitors challenges (competitive aggressiveness). This implies that a firm must be both proactive in pursuit of opportunities and the will to respond aggressively to competitors.

3.4.1.5   Competitive aggressiveness

The competitive environment requires firms to be alert to the environmental dynamics and respond aggressively to rivals to maintain or attain competitive position. Competitive aggressiveness is a driver to face intense competition posed by rivals. Baker and Sinkula (2009:457) support the argument that dynamic market environment demand aggressive product development, customer support systems, and highly adaptable product process to win the market. Consistently, Miller (1983:771) emphasized that competitive aggressiveness implies "beating competitors to the punch". This implies that it is a competitive intensity that new entrants to the market often need to compete with existing rivals or the response competitive intensity the rivals poses to protect its competitive position against new

entrants. In this view, competitive aggressiveness is the firm's response to competitors in the effort to protect competitive market position.

3.4.2 Association Of Entrepreneurial Orientation And Performance

In an attempt to examine the relationship between entrepreneurial orientations and firm performance several studies have reported mixed findings. While some have reported positive relationships (Keh *et al.*, 2007:605; Kraus *et al.*, 2005:335; Li *et al.*, 2008:128; Wiklund & Shepherd, 2005:85), others reported only a partial relationship (Walter *et al.,* 2006:557). The argument for a positive influence of entrepreneurial orientation on performance is based on the first-mover advantages and the tendency to take advantage of emerging opportunities implied by the entrepreneurial orientation (Li *et al.*, 2008:119).

Walter *et al.* (2006:549) conclude that entrepreneurial oriented firms can target premium market segments and capture high profits ahead of rivals. These firms monitor market dynamics and respond quickly, thus proactively capitalize on emerging opportunities. Innovation keeps them ahead of their competitors, while gaining a competitive advantage that leads to improved financial results (Morris *et al.*, 2008:57). Pro-activeness give firms the ability to predict future demands of customers and present new products/services to the market ahead of competitors, which also gives them a competitive advantage in the dynamic business environment (Li *et al.,* 2008:129; Walter *et al.,* 2006:549).

Empirically, research has found that the effects of entrepreneurial orientation on firm performance vary with the types of business industry and environments (Lumpkin & Dess, 2001:436; Walter *et al.,* 2006:557; Schindehutte, Morris, & Kocak, 2008:11). While previous studies have highlighted the importance of a two way interaction between entrepreneurial orientation and performance (Kraus *et al.*, 2005:318; Wiklund & Shepherd, 2005), greater insight into performance might be gained through use of moderating effect model, and interaction-effect model proposed by Lumpkin and Dess (1996:156) to investigate the impact of a third or fourth variable as a means of exploring contingency relationship. It is from this background that next section presents a review of previous studies on the interaction effects of other

variables on the relationship between entrepreneurial orientation and firm performance.

3.4.3 Interaction Effect On Entrepreneurial Orientation

Previous studies have examined the interaction effects of different variables in the relationship between entrepreneurial orientation and firm performance. Wiklund (1998:334) examined the interaction effects of entrepreneurial orientation, and capital availability and their impact on firm performance reported no effect. In another study Keh *et al.* (2007:607) examined the moderating effects of acquisition and utilization of the market information in the relationship between entrepreneurial orientation and SME performance. The results show that there is a direct and indirect effect of entrepreneurial orientation on SME performance. On the indirect relationship, Keh *et al.* (2007:607) observed that acquisition of market information had non-significant relationship with SME performance but has significant relationship with the utilization of market information that subsequently has significant relationship with SME performance. These findings may imply that information acquisition has no value in SME performance unless it is utilized. Consistently, entrepreneurial orientation reported to play an influential role on the acquisition and utilization of market information that leads to SME performance (Keh *et al.*, 2007:606). These findings, again, imply that entrepreneurial oriented SMEs are likely to attain performance through acquisition and utilization of market information.

On the other hand, networking capability was reported to moderate the relationship between entrepreneurial orientation and firm performance but no direct relationship was observed between entrepreneurial orientation and performance measures such as sales growth, sales per employee, or profit attainment (Walter *et al.,* 2006:557). These findings indicate that entrepreneurial oriented SMEs could benefit more when they are engaged in networks than operating in isolation. This can be explained by the fact that networking allows firms to gain access to resources they need but do not own, learn new capabilities from partners and build reputation in the market (Ireland *et al.*, 2001:55; Hitt *et al.,* 2007:239). In this view, these findings may imply that the existence of entrepreneurial orientation per se should not be regarded as a

remedy for improving firm performance and long term survival of firms, unless other factors influencing the relationship are identified. The next section reviews the literature on networking and how a firm can use networks to attain performance.

3.5   NETWORKING

In the effort to study firm performance, networking has also been pointed out as a contributing factor (George *et al.*, 2001:280). Networking has become an important factor particularly in SME's due to increasing competition in the business environment. Networking describes entrepreneurial behaviour in building relationships with the external environment to develop mutual trust and access to information, resources, market and technologies (Barringer, Jones & Neubaum, 2005:680;Hitt *et al.,* 2007:239 Moreno & Casillas, 2007:85; Soh, 2003:731; Semrau & Werner, 2012:159). Aldrich and Zimmer in George *et al.* (2001:271) define networking as a set of long-term contacts between people or organizations in order to get information and build resources. A network can be either formal or informal. The formal networking is guided by a set of formally specified rules and informal networking involves more discretionary patterns of interaction (Hitt *et al.,* 2001:482).

The network theory, usually conclude that membership of a business network will offer participants the opportunity to add greater unique value to their products and or services (Chaston, 2000:39; Moreno & Casillas, 2007:85). Barringer *et al.* (2005:680) define unique value to customers as helping customers maximize utility, reduce costs, and / or increase organizational effectiveness in a unique manner. The reason behind this is, networking with external environment is a mechanism by which entrepreneurs obtain potential information about untapped opportunities (George *et al.*, 2001:270) and firms access scarce resources or discover new resources that are not known to existing firms (Hitt *et al.,* 2007). Creating and maintaining these linkages may be a firm's capability that creates competitive advantage for SMEs and chances of success (George *et al.,* 2001:280; Nieto & Santamaria, 2010:62; Watson, 2007:854). For example, Soh (2003:728) points out that those firms with a more effective networking strategy tend to acquire more competitive information earlier than other firms; and this information advantage in turn leads to better new product

performance. Similarly, Nieto and Santamaria (2010:61) conclude that networking, if well utilised, narrows the innovation gap between small and large firms.

The competitive business environment requires SMEs to adopt new market strategies such as innovation, upgrading the quality of existing products/services, acquires timely marketing information, hire or employ qualified staff (Vusi & Kamilla, 2002:162). At the same time, many SMEs cannot afford all the technologies and human resources that they need due to resource constraints (Kropp & Zolin, 2005:1; Verhees & Meulenberg, 2004:137). In such environments, networking allows SMEs to forge a flexible relationship with other players such as suppliers, competing firms, customers, and public research institutions to fully capitalize on their core competencies (Verhees & Meulenberg, 2005:137; Walter *et al.,* 2006:557; Dickson & Weaver, 2011:126). The management of innovation literature indicates that firms seeking to survive in rapidly changing and/or highly competitive markets are being advised to consider participating in business networks (Charston, 2000:36). Through networking, firms are likely to attain superior performance over competitors, based on the value added products and services they offer (Barringer *et al.*, 2005:680; George *et al.,* 2001:280).

Other scholars have argued that where the required market information is complex, expensive or difficult to obtain, firms choose to network with other firms or individuals as the most cost effective strategy for data acquisition (Walter *et al.,* 2006:548). The transaction cost theory supports the argument that networks are one of the affordable ways that some organisations use to gain access to resources or to receive new and more complex technologies (Dickson & Weaver, 2011:126). George *et al.* (2001:269) concludes that the interdependency over shared resources lowers transaction costs, thereby permitting network members to more rapidly respond to problems or adapt to changing market conditions. This is in line with the findings reported by Walter *et al.* (2006:550) that networking firms are better able to anticipate new preferences, are aware of competitors actions quickly, and can either develop new market offerings when competitors copying becomes apparent or imitate their innovations. In this regard, access to these resources enables SMEs to develop market competence through product or process improvement that leads to

performance. The next section presents a review of the influence of networking on firm performance.

3.5.1 Influence Of Networking On Performance

Although the arguments in favor of networking appear compelling, and most of the existing literature is premised on the belief that networking is beneficial (George *et al.*, 2001:280; Hoang & Antoncic, 2003:169; Watson, 2007:854). There have been little empirical evidence on the association between firm performance and the owner's use of networks (Havnes & Senneseth, 2001:299), particularly for established businesses like the ones under the study. Aldrich and Reese (1993:327) were unable to find any evidence linking an entrepreneur's use of networks to business performance and, similarly, Cooper *et al.* (1994:390) was unable to find a significant relationship between the use of professional advisors and firm performance. Examining the role of networks, it becomes clear that it involves sharing of resources among participating partners that may lead to a firm gaining competitive advantage over rivals (Dickson & Weaver, 2011:126; Nieto & Santamaria, 2010:62; Semrau & Werner, 2012:159). However, the benefits of networking may not be direct as many people tend to believe.

Walter *et al.* (2006:546) argued that value creating, organizational ties between organizations do not simply exist or emerge, the transfer of know how between network partners is fraught with ambiguity and interactions can rarely be pre-specified. This finding is consistent with the results reported earlier by other authors such as Gulati, Nohria and Zaheer (2000:210), that networks may have negative implications, locking into unproductive process where know-how and other resources are wasted. The inconsistence of the findings warrants further investigation for other factors influencing the relationship between networking and firm performance. It is from this context that this study considers networking capability to be more relevant to determine performance than just networking as a process.

Networking capability is considered appropriate in this study because it is an outcome oriented construct with the attributes that once the firm poses and execute, it is likely to realize the outcome of their relationship. Keh *et al.* (2007:375) supports

this argument by emphasizing that firms choose to pursue networking as a strategy, must be able to develop the capabilities, structures and processes to support a collaborative approach. The next section presents a brief review of networking capability and how it can be used to build a competitive advantage of the firm to enhance performance.

3.5.2 Networking Capability

Networking capability refers to the abilities to initiate, maintain, and utilise inter-organisational relationships with various external partners (Walter *et al.,* 2006:541). In other words, networking capability emphasizes the ability to develop a robust and sustainable relationship with mutual benefits among collaborating firms. The aim of such a relationship is for the firms to access and complement resource requirement, which subsequently enhance competitive advantage. Networking capability is an outcome driven construct that thrive to realise the objective of the inter-firm relationship. According to Kale *et al.* (2000:221), networking capability has four dimensions namely coordination, relational skills, partner knowledge, and internal communication that the management of a firm needs to focus for a firm's good performance. The details of these components are elaborated below.

3.5.2.1   Coordination between collaborating firms

The coordination activities extend beyond firm's boundaries, connecting individual firms together with other firms and different individuals into a network of mutually supportive interaction. The networking literature suggests that firms participating in inter-organizational relationships to complement resource needs from networking partners, is a common way of firms to gain competitive advantage (Barringer *et al.,* 2005:680). This is especially important in today's business environment where market forces are changing continuously and the resource needs has grown enormously beyond the resource base of most firms. In this regard, the ability to develop effective coordination is important for a firm to benefit from resource sharing and efficient utilization of resources obtained from networking partners. Dickson and Weaver (2011:126) and Ireland *et al.* (2001:55) postulate similar views that "networks allow firms to gain access to resources they need, but do not poses and

learn new capabilities from networking partners". This emphasis is particularly relevant to resource constrained firms if they are to complement resource requirements and build competitive advantage.

The literature indicates that knowledge and other resources necessary to build a firm's competitive advantage are in isolation, and fragmented, unless they are well coordinated and combined in a unique combination to realise their potential (Barney & Arika, 2005:174). Barney (1991:105), supporting this argument pointed out that the competitive advantage of a firm is attained when firms are able to coordinate the available resources in a way that leads to competitive advantage. This implies that for effective utilization of resources, coordination is engaged in pulling together resources from both sources within the firm and those shared by partners, allocate resources to the most feasible operations and monitor the process to ensure resources yield the most valuable return which imparts the competitive advantage of the firm. However, the effective coordination can be attained if a firm has good relational skills to build trust and confidence to networking partners so that they are willing to share core competitive resources, otherwise the relationship will be fraught and ambiguous with no benefits among networking partners. With the understanding of the importance of the relational skills in networking, the next section gives a brief account on how it supports firm performance.

3.5.2.2   Relational skills

The relational skills are important for a firm to create and sustain long term relationships with mutual benefits among participating firms. Kale *et al.* (2000:220) refers relational skills as a social competence, which are crucial for the management of relationships because relationships are very often inter-personal exchange situations. It is argued that interpersonal exchange situations rely on trust and confidence built by the partners of whom partners with good relational skills are well placed to impart both issues (trust and confidence), to the second party. Marshall, Goebel and Moncrief (2003:248) argues that relational skills include such aspects "as communication skills, problem solving skills, interpersonal skills, conflict management skills, empathy, emotional stability, self-reflection, sense of justice and cooperativeness". In this view, a firm with good relational skills is likely to develop

effective and sustainable relationship that is mutually beneficial among networking partners, which in turn enhance competitive advantage that leads to performance. The relational skill on customers, suppliers and competitors is crucial in this regard.

With regard to customers, relational skills are important means of learning about customer needs in order to offer more value of products and or services (Walter *et al.*, 2006:548). The implication of this is the attraction of new customers and retention of regular customers to continue buying products and services for the business. Barringer *et al.* (2005:680) define creating unique value as "helping a customer maximize utility, reduce costs or increase firm effectiveness in a unique manner" compared to competitors. On the supplier side, relationships are crucial to ensure timely available supplies for continuous availability of products of notable value to customers. Due to the increasing complexity of technologies, capabilities needed and risks implied, firms increasingly opt for collaborative innovation (Nieto & Santamaria, 2010:61). The collaborative innovation has been associated with the sharing of resources and risk implied by the innovation in case the innovation does not make it in the market. Ketchen *et al.* (2008:371) postulated that collaborative innovation is the pursuit of innovations across firm boundaries through sharing of ideas, knowledge, expertise, and opportunities that allows partner firms to complement resource needs. The relational skill is important when associated with partner's knowledge in order to identify the appropriate partners. In this regard the next section present the role of partner's knowledge in identifying the right partner with relevant resources to complement the resource needs of the firm.

3.5.2.3 Partner's knowledge

Partner's knowledge is the organized and structured information about a firm's partners such as suppliers, customers and competitors (Walter *et al.,* 2006:547). The information capitalises on the potential resources and constraints existing in each potential partner. Kale *et al.* (2000:221) argues that SME owners or managers with knowledge about their partners can structure appropriate exchange mechanisms and governance structures and these firms can avoid or handle instabilities in their partnerships to sustain their relationships. Partner's knowledge allows firms to

identify appropriate partners with relevant resources and capabilities to complement their resource and capability needs.

In the effort to connect its own resources to those of other firms by building relationships, a firm strive to understand about possible partners to network with. In the process, the owner/managers evaluate the possible options from a pool of potential partners and choose the best partner with relevant resources and capabilities to complement resource needs of the firm. It can be argued that for effective taping, the benefit from networking partners, the firm's owners or managers, must share the information to the rest of the workers on the potential resources and capabilities, existing to the partners, the main weaknesses of partners, and the core objective of their relationship. This creates an environment where each employee's effort is directed towards a common goal. The next section reviews the role of internal communication in enhancing competitive advantage.

3.5.2.4 Internal communication

Internal communication is a vital part of collaborative competence (Kale *et al.*, 2000:223). It encompasses assimilation and sharing of strategic information, resources, and agreements with all employees in the firm to improve the detection of synergies between partners and focus their efforts in areas which are more beneficial to their firm. It allows dissemination of knowledge and information regarding the strength and weakness of partner's firms and highlights areas of focus in their collaborative lifespan so they can tape the potential exist from collaborating firms. Song *et al.* (2010:565) emphasizes that regardless of market conditions, the competitive advantage associated with information depends on the formal processes of information acquisition and utilisation. In this regard, internal communication is one way of formal utilisation of strategic information aimed at creating a firm's competitive advantage.

To summarise, networking capability is a firm competence building construct that strategically identify the resource needs of the firm and use relational skills and partners knowledge to identify potential networking partners to complement resource needs. The networking capability enhance assimilation and sharing of strategic

information pertaining to the relationship to direct the attention and efforts of employees to learn new capabilities and share resources which fill the resource and capability gap in their firm and build competitive advantage. For efficient and effective realisation of the benefits of networking, the process is well coordinated to ensure the expected benefits are gained from the relationship in case of disparity appropriate measures for remedy are taken. The next section presents conceptual framework and indicates the relationship of variables involved in this study.

3.6 CONCEPTUAL FRAMEWORK

The empirical research is proposed to examine the relationship between dimensions of strategic entrepreneurial response, such as market orientation (i.e. competitor orientation, customer orientation, and inter-functional coordination), entrepreneurial orientation (i.e. innovation, autonomy, proactive, risk taking, competitive aggressiveness) and networking capability (i.e. coordination, relational skills, partner's knowledge, and internal coordination) with SME performance. Previous research studied the relationship between individual dimensions of strategic entrepreneurial response and performance has failed to give consistent results, possibly because it has been considering these variables in isolation, while in reality entrepreneurs use them in combination when responding to rivals. It follows from this regard; this study integrates these dimensions of strategic entrepreneurial response and examines their interaction and their effect on SME performance.

The intention of the study is to describe the relationship of the dimensions of strategic entrepreneurial response and SME performance. Regarding this explanation it is conceptualized that the SME's performance increases with the dimensions of strategic entrepreneurial response, but faster in a situation where there is interaction of the dimensions of the strategic entrepreneurial response that enhance simultaneous opportunity seeking and advantage seeking.

3.6.1 Strategic Entrepreneurial Response And SME Performance

Figure 3.2 presents the proposed conceptual framework that shows the relationship of constructs and variables involved in this study. The broken lines represent direct relationship between dimensions of strategic entrepreneurial response (i.e., market orientation, entrepreneurial orientation, and networking) and SME performance, and the solid lines represent the interactions among dimensions of strategic entrepreneurial response and their relationship to SME performance.
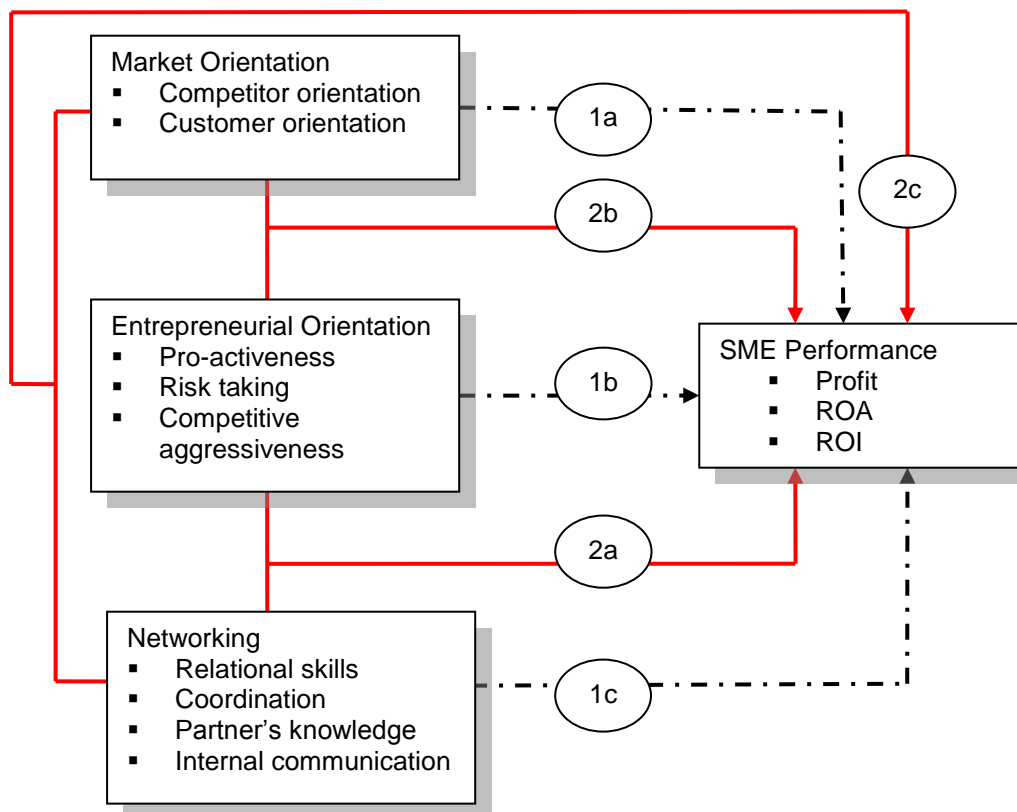
Figure 3.2:   Relationship between dimensions of strategic entrepreneurial response and   SME performance.

Source: Own formulation

3.6.1.1   Relationship between market orientation and performance

The positive relationship between market orientation and performance is based on the fact that trade liberalization has exposed customers to several brands and is able to compare quality of products and prices from various suppliers. In essence, this contributes to changes in customers' behaviour in terms of taste and preferences,

which have an implication on decision to buy. In such a situation, market oriented firms have a system in place to monitor customer behaviour, competitors and internal coordination to respond to these changes so as to attain high performance. For example in China, Li *et al.* (2006:95) postulates that "small firms are increasingly concerned with consumer preferences by undertaking rapid internal adjustment to adopt new changes taking place in the environment to attain high performance". This finding is consistent with other studies that reported positive relationship between market orientation and performance (Kara *et al.*, 2005;112; Langerak, 2003:104; Li *et al.*, 2008:128; Li *et al.*, 2006:106).

In view of the above, it implies that market oriented firms gather strategic information on customers and competitors, assimilate and utilize to attain competitive advantage, which subsequently leads to performance (Li *et al.*, 2008:128). Inter-functional coordination ensures the available strategic resources are well managed to yield maximum potential of return. Gove, Simon, & Hitt, (2003) in Ireland *et al.* (2003a:973) argue that idiosyncratic resources are likely to produce sustainable competitive advantages only when they are managed strategically. In this view, inter-functional coordination is important for a firm to attain sustainable competitive advantage. While previous studies considered market orientation as a undimensional construct, this study consider multidimension where customer orientation, competitor orientation, and inter-functional coordination are considered as individual dimensions of the market orientation and varies independently and have different influence on performance, hence a need to study individual dimension of the market orientation.

3.6.1.2 Relationship between entrepreneurial orientation and performance

Entrepreneurial literature agrees that, opportunities are dynamic. In this case, it requires timely decision making, being flexible, and first to seize opportunities before rivals. Also in situation of trade liberalization where there is an intense competition to win market, firms are required to create unique value products/services to customers. In this view, these factors are implied in the entrepreneurial orientation that focuses on autonomy, risk taking, innovation, pro-activeness, and competitive aggressiveness. It can therefore be conceived that entrepreneurial oriented firms are likely to outer-perform firms which are none entrepreneurial oriented.

The literature offer evidence of positive relationship between entrepreneurial orientation and firm performance (Li *et al.*, 2008:128; Keh *et al.*, 2007:607; Kraus *et al.*, 2005:335; Wiklund & Shepherd, 2005:85). The argument for a positive relationship between entrepreneurial orientation and performance is associated with the first mover advantage implied by the entrepreneurial orientation (Li *et al.*, 2008:119). Keh *et al.* (2007:593) observed that three core dimensions of entrepreneurial orientation: risk taking, acting proactively, and innovativeness, have position impact on performance. Other studies observed that the stage of industry life cycle development tended to favour one dimension of the entrepreneurial orientation over the other. For example, Lumpkin and Dess (2001:430) during the initial test showed that proactive was positively related to performance, but competitive aggressiveness was poorly associated with performance. Subsequent tests revealed that performance of firms in the early stages of industry development was stronger when strategy making was proactively oriented. In contrast, a competitive aggressive frame of mind was helpful to firms in more mature stages of industry development.

Furthermore, results indicated that in dynamic environments, characterised by rapid change and uncertainty (Teece, 2007:1319; Kuratko & Audretsch, 2009:1; Morris et al., 2008:7), proactive firms had higher performance relative to competitive aggressive firms (Lumpkin & Dess, 2001). In hostile environments where competition is tense and resources are constrained, competitive aggressive firms had stronger performance (Lumpkin & Dess, 2001). Contrary to the previous studies which considered entrepreneurial orientation as unidimensional construct, this study conceptualize entrepreneurial orientation as multi-dimensional in nature and it examines the relationship of individual dimension of entrepreneurial orientation on firm performance. Lumpkin and Dess (2001:430) emphasized a need to study entrepreneurial orientation as a multidimensional construct for the reasons that individual dimension varies with the context and stage of industry life cycle development. Based on the same argument this study tests the relationship between individual dimensions of entrepreneurial orientation and SME performance.

3.6.1.3 Relationship between networking capability and SME performance

Small businesses face steep competition in environment they operate. To face these challenges they need to be innovative to offer unique and value added products and services to customers. Innovation is a long process which starts from invention to commercialization of products/services. To complete this process requires SMEs to have adequate resources in terms of physicality and humanity. While this is the requirement, the majority of SMEs are constrained with resources (Kropp & Zolin, 2005:1; Nieto & Santamaria, 2010:45; Verhees & Meulenberg, 2004:137) and their survival is dictated by competitive forces which leave SMEs with little choice to avoid networking. George *et al.* (2001:270) and Nieto and Santamaria (2010:62) point out that firms use networking as a strategy to build relationships with other firms to gain access to scarce resources that may lead to a sustainable competitive advantage.

George *et al.* (2001:270) pointed out that a firm, which establishes and maintains networks has the likelihood to access to new information, ideas, and opportunities. Consistently, Soh (2003:728) argues that a firm with more efficient networking strategy tends to acquire more competitive information about other firms, earlier than other firms, and this information advantage in turn, leads to better new product performance over competitors. The study on effects of entrepreneurial orientation and marketing information on the performance of SMEs revealed that information utilization in market decision making has significant and positive impacts on performance (Keh *et al.*, 2007:607). This implies that information utilization enables SMEs to gain competitive advantage and maintain a stronger position relative to competitors.

However, Walter *et al.* (2006:546) suggests that the transfer of know how between networking partners is not realised automatically, it needs proper management. This implies that networking partners need to have networking capacity to initiate and maintain relationship with mutual benefits among participating firms. According to Kale *et al.* (2000:221) a firm with networking capability should have relational skills, partner's knowledge, ability to assimilate and disseminate information within the firm and coordination of networking operations beyond the firm's boundaries. In this case,

the networking capability is a competence enhancing organizational strategy that helps the firm to attain performance.

3.6.2 Interaction Of Dimensions Of Strategic Entrepreneurial Response

The inconsistencies of the results on the relationships between dimensions of the strategic entrepreneurial response (i.e., market orientation, entrepreneurial orientation, and networking) and performance has prompted researchers to investigate other dimensions contributing to performance. Lumpkin and Dess (1996:156) proposed earlier that greater insight of performance might be gained through studying moderating and interaction effect models to investigate the impact of the third or fourth variable as a means of exploring the contingence relationship.

While other studies have considered, in isolation, the dimensions of strategic entrepreneurial response such as market orientation, entrepreneurial orientation and networking in respect to their relationship with firm performance, this study considers these dimensions as strategic entrepreneurial response which implies that entrepreneurs use them in combination in real life and not in isolation when responding to rivals. When an entrepreneur is confronted by the rivals, it may decide to use these strategies in different combinations. In this case, there will be an interaction effect among variables and the implication is reflected on the firm's performance.

Zhou, Yim and Tse (2005:54) suggest the need to consider the interaction effect of the three strategic orientations namely: market orientation, entrepreneurial orientation and technological orientation and their impact on source of sustainable competitive advantage. Man *et al.* (2002:130) contends that the performance of a firm, be it a larger firm or SME, is based on a long term competitiveness. Recently, Schindehutte *et al.* (2008:12) argued that the relationship between strategic orientation (i.e., market orientation, entrepreneurial orientation and technological orientation), market driving behavior, and sustainable competitive advantage, that leads to firm performance, remain unclear and call for further study.

While previous studies insist on market orientation, entrepreneurial orientation, and technological orientation, in this study technological orientation is substituted by networking capability due to the relevance of the networking in SMEs to complement resource needs. Various studies indicate that SMEs select networking strategy to access technologies (Ireland *et al.,* 2001:55; Moreno & Casilla, 2007:85; Baringer *et al.,* 2005:680) among other things, because SMEs lack resources (Kropp & Zolin, 2005:1; Nieto & Santamaria, 2010:45; Verhees & Meulenberg, 2004:137) to acquire all technologies required in a competitive environment. This persistent call warrant further research to understand the interaction effects of the dimensions of strategic entrepreneurial response and their impact on performance.

3.6.2.1 Interaction of entrepreneurial orientation and networking capability

In response to that, several authors have investigated this relationship. For example, Walter *et al.* (2006:558) studied the relationship between entrepreneurial orientation and performance of university spin-offs and did not find any significant direct relationship between the two variables but reported moderating effects of networking capability in the relationship between entrepreneurial orientation and performance. This implies that networking capability strengthens the relationship between entrepreneurial orientation and performance. This finding is in line with previous reports, which show that entrepreneurial orientation and networking strategy are significant and positively related (George *et al.*, 2001:281), which implies that more entrepreneurial firms follow proactively networking strategy to access resources, markets and technologies (Barringer *et al.*, 2005:680; Moreno & Casillas, 2007:85; Semrau & Werner, 2012:159).

While networking strategy is one of the most effective strategies to access information and other resources, other scholars have showed that entrepreneurial orientation is a strong predictor of both information acquisition and utilization, which enhances a firm's performance (Keh *et al.*, 2007:605). Furthermore, the finding shows that information utilization serves as a partial mediator in the relationship between entrepreneurial orientation and performance relationship (Keh *et al.*, 2007:606). In light of this background, it implies that entrepreneurial orientation alone in a firm, is not adequate for a firm to compete in the dynamic market environment of

contemporary times. In view of this argument, this study considered crucial to examine the relationship between SME performance and the interaction between networking capabilities and entrepreneurial orientation.

3.6.2.2 Interaction between market orientation and entrepreneurial orientation

According to Schindehutte *et al.* (2008:14) the primary source of sustainable competitive advantage is derived from either market orientation, entrepreneurial orientation or technological orientation. For example, the entrepreneurial literature indicate that firms with high levels of entrepreneurial orientation constantly search and exploit potential opportunities which strengthen their competitive positions (Keh *et al.,* 2007:593). On the other hand, market orientation is also focused on acquisition and utilization of market information focused on customers and competitors (Gorry & Westbrook, 2011). Kara *et al.* (2005:106) argue that continued collection of information on customer needs and competitor capabilities enhances consistently the offering of value added products and services to customers and to the sustainability of competitive position. This implies that market orientation provides information that aid for entrepreneurial oriented firms to choose the most appealing opportunities to customers and adopt competitive strategies to outperform competitors.

Delivering unique values to customers are centered on the innovation or doing things different from existing market players. This implies risk taking, because entrepreneurs operate in an uncertain environment, which does not ensure acceptability of products/services by end users. It also needs to be pro-active, which implies to be the first to offer these products/services to market, and competitive aggressiveness that indicate how entrepreneurs interact and respond to competitors and market demands (Lumpkin & Dess, 2001:434). Schindehutte *et al. (*2008:15) pointed out that performance is positively associated with the alignment between market orientation and entrepreneurial orientation. This background implies that entrepreneurial oriented firms are likely to follow market oriented strategies to attain performance over rivals. It is from this argument, this study is planned to examine the relationship between SME performance and the interaction of market orientation and entrepreneurial orientations.

3.6.2.3   Interaction of market orientation and networking capability

Networking strategy has long been identified as a mechanism for small firm's to access information, resources, technologies, and markets, which subsequently enhance competitive position (Barringer *et al.*, 2005:680; Nieto & Santamaria, 2010:62; Semrau & Werner, 2012:159). Similarly, it is acknowledged that market oriented firms tend to link their firms with external environment that enable them to compete by anticipating market requirements ahead of competitors and creating sustainable relationships with customers and suppliers (Schindehutte *et al.*, 2008:6). While market orientation is important for attaining competence, various studies have pointed out that small firms lack adequate resources to implement market oriented strategies (Li *et al.*, 2008:127; Keh *et al.*, 2007:593). In response to that, SMEs tend to establish networks with other firms in order to complement resource and capability needs from other firms which are not constrained with required resources. In light of this observation, this study intends to examine the relationship between SME performance and interaction of market orientation and networking capability.

3.6.3 Control Variables

The entrepreneurial literature has identified a number of situational variables that affect a firm's performance. These variables must be controlled, while analyzing the effect of dimensions of strategic entrepreneurial response on performance. The literature consistently reported that entrepreneurial orientation related phenomena are affected by firm size, age of the firm, type of industry, gender, age of owner/manager and level of education of owner/manager (Verhees & Meulenberg, 2004:137; Walter *et al.,* 2006:554; Tang & Murphy, 2012:49; Tang & Hull, 2012:142). Each of these variables can influence the firm's performance and therefore, need to be controlled for in examining the effect of dimensions of strategic entrepreneurial response on performance.

The literature indicates that larger firms have better technologies, human and financial resources to pursue market oriented strategies (Barringer *et al.*, 2005:671; Keh *et al.*, 2007:593; Li *et al.*, 2008:127; Verhees & Meulenberg, 2004:137; Walter *et*

al., 2006:564). In addition, the size of a firm may determine the enterprise to go for the economies of scale in various activities, thereby positively affecting its performance (Barringer *et al.,* 2005:671). However, other scholars have reported controversial results on relationship between size and growth of the firm. For example, Moreno and Casilla (2007:82) report that a small firm grows faster than their counterpart's larger firms, which is contrary to the widely known Gibrat's Law, which suggests that all firms have the same likelihood of growth, regardless of their initial size. Tang and Hull (2012:142) argue that a firm's age has also been verified to be a significant factor in exploiting organizational strategic behavior. The older the firm, the more hierarchy and inertia it has, and the less it is motivated to change organizational directions by innovating new products or services.

The type of an industry affects the ability of a firm to obtain resources and hence, could be critical in determining the extent to which it can strategically respond to rivals actions (Barringer *et al.,* 2005:666). Morris and Kuratko (2002) argue that while each firm has a certain level of entrepreneurial orientation, norms for entrepreneurial orientation are expected to vary among industries. Contrary to this argument Schindehutte *et al.* (2008:11) assert that even within similar industry, there can be significant variation in the level of entrepreneurial orientation, which influences a firm's performance.

3.7   INDICATORS OF PERFORMANCE

There is a long debate, and yet no consensus reached with regard to the appropriate measures of SME performance. Man *et al.* (2002:130) argues that although previous studies have focused on factors contributing to performance rather than performance itself, it is clear that all studies put more emphasis on long term performance, success and or growth of firms. Man *et al.* (2002:130) further suggests that the performance resulting from SMEs competitiveness should be long term focused, rather than short term oriented. This implies that whatever the level of focus; competitiveness is ultimately concerned with the long term performance of the subject related to its competitors, which is a result of being competitive.

It is also argued that growth is the crucial performance measure in SMEs due to easy accessibility of its indicators than financial performance measures. Hence superior to indicators of financial performance, especially in cases where small business owners or managers tend to be reluctant to offer profit records for tax reasons or do not keep financial records (Kraus *et al.,* 2005:338). Consistently, Wolff and Pett (2006:274) point out that the "sensitivity of small and medium sized private enterprise to provide performance information makes it difficult to measure performance in SMEs". While other studies argue that there is no unique method to measure a firm's growth, there is still a debate going on about how to measure a firm's growth objective versus subjective approaches; single versus multiple indicators through sales, assets, employment and so forth (Delmar, Davidsson & Gartner, 2003).

Walter *et al.* (2006:553) views performance as multidimensional in nature and suggest that it is advantageous to integrate different dimensions of performance in empirical studies. It is possible to regard financial performance and growth as different aspects of performance, each aspect representing important and unique information. A firm could, for example choose to trade off long–term growth for short-term profitability (Wolff & Pett, 2006:271). Taken together, growth and financial performance such as return on asset (ROA), and return on investment (ROI) (Meyer, 2009:345) gives a richer description of the actual performance of the firm than each does separately.

Walter *et al.* (2006:553) contends that sales growth is the best growth measure. It reflects both short- and long-term changes in the firm, and is easily obtainable. This argument is consistent with the remark posed by Barkham, Gudgin, Hart & Hankey (1996) that entrepreneurs consider sales growth to be the most common performance indicator. However, the growth process itself poses further arguments for advocating sales growth. The growth process is likely to be triggered by increased demand of the firm's products or services, which is an indicator of market acceptance and success (Walter *et al.*, 2006:553). From this background, sales growth allows for acquisition of additional resources such as employees, equipments and machineries. It seems unlikely that growth in other dimensions could take place without increasing sales. It is also possible to increase sales without acquiring

additional resources or employing additional staff through outsourcing to increase business volumes. In this case, only sales would increase. Thus, sales growth has a high generality.

On the other hand, there is widespread interest in the creation of new employment. This makes employment growth and wage bill as other important aspects to capture. In a process of rationalization, it is possible to replace employees with capital investments. In other words, there is to some extent an inverse relationship between capital investment and employment growth. As a consequence, assets are another important aspect of growth. Weinzimmer, Nystrom and Freeman (1998:254) observed that "measuring growth in terms of assets is often considered problematic in the service sector due to problems associated with accounting procedure". According to the authors, assets may expand in a growing firm, but this is not normally reflected in the firm's balance sheet. Thus, the problem of studying growing assets in service industries is related to the difficulty in the data collection, rather than in the lack of relevance.

When assessing performance, comparisons of competing firms in the market reveal important supplementary information (Birley & Westhead, 1990:553) and it has successfully been used in several studies (Wolff & Pett, 2006:275). Such measures give indication to whether firms are deviating substantially from growth pattern of their industrial counterparts. Based on previous research, this study suggests that performance measures should consider both growth and financial performance such as profit, return on asset (ROA), and return on investment (ROI). Moreover, performance should also be related to the performance of competitors. In studying growth, the expansion of sales, employment, wage bill, profit, and assets growth all provide important and complementary information. Therefore, in testing the hypotheses, this study used several indicators such as profit, ROA, and ROI to capture performance.

3.8   CHAPTER SUMMARY

This chapter presented the concept of strategic entrepreneurial response in dynamic and competitive environment. The literature indicate that strategic entrepreneurship is appropriate for a firm to respond to the challenges posed by dynamic environment and to achieve this, it requires firms to simultaneously acquire and apply opportunity and advantage-seeking behaviours to attain and sustain competitive advantage. While this is what expected, firms face challenges to combine opportunity and advantage-seeking behaviours (Ireland & Webb, 2007b:51; Ketchen *et al.,* 2007:374). Among argument advanced for this, is that although opportunity-seeking (exploration) acknowledged contributing to strategic flexibility, the outcomes of investments made in the firm's opportunity-seeking is uncertain, due to their experimental nature and lack of certainty that positive outcomes will accrue from them (Ireland & Webb, 2007b:51).

In light of the above, Alvarez and Barney (2007:14) defined uncertain as, "a decision making context in which at the time decision is made, the decision makers are not exposed to adequate information needed to anticipate, neither the possible outcomes associated with a decision, nor the probability of those outcomes". McGrath and MacMillan, (2000:1) contend that uncertainty can be used to the firm's benefit if it creates and employ entrepreneurial mindsets as a way of thinking about a firm's business that captures the benefits of uncertainty. In this view, this study integrates market orientation and entrepreneurial orientation to address this puzzle. The market orientation is engaged in continuous scanning of external environment; generate adequate information regarding environmental dynamics. The collected information expose decision makers to adequate information to make informed strategic decisions and be able to anticipate possible outcomes associated with the decision, and enhance prediction of probability of each of those possible outcomes. In such environment, entrepreneurs are able to take calculated risks.

Market orientation grounded in entrepreneurial orientation enables firms to generate market intelligence focused on customer satisfaction and differentiate from rivals through aggressively pursuing new market opportunities that enhance sustainable competitive advantage. On the other hand, entrepreneurial orientation grounded in

market orientation creates innovations with customer value, while sustaining competitive advantage over rivals. With the understanding that SME's face resource constrain, a firm's ability to form effective networking to complement resource and capability needs are considered appropriate to address this problem.

In light of the above, entrepreneurship development has long been associated with the entrepreneurial culture, socio economic status and political settings (Welter & Smallbone, 2011:120). In this regard, it is acknowledged that these factors contribute to the differential entrepreneurial activity from one country to another. It is from this context a need arose to review the context in which data were collected. The next chapter gives an account of socio economic setting of Tanzania, efforts made so far to support SME and entrepreneurship development and the challenges confronting entrepreneurship in the country.

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CHAPTER FOUR

4   OVERVIEW OF SME AND ENTREPRENEURSHIP DEVELOPMENT IN
TANZANIA

4.1   INTRODUCTION

This chapter provides an overview of SMEs and entrepreneurship development in Tanzania. It highlights various strategies employed to support entrepreneurship and SME sector, the trends of economic development and policy reforms before and after independence and their implication on the entrepreneurial culture and SME development. This chapter concludes by pointing out the main challenges facing entrepreneurs and SME in Tanzania in the era of globalization and trade liberalization.

4.2   RESEARCH SETTINGS

Before discussing SME and entrepreneurship development in Tanzania, this section gives an overview of the research context, highlighting the location of Tanzania, population and administrative regions in which data were collected. The United Republic of Tanzania (URT) is a product of the union of two sovereign states namely Tanganyika and Zanzibar. Tanganyika became a sovereign state on 9 December 1961 and became a republic one year later in 1962 (Mwakikangile, 2006:30). Zanzibar gained independence on 10 December 1963 and the People's Republic of Zanzibar was established after the revolution of 12 January 1964 (Mwakikangile, 2008:11). The Tanganyika is the mainland and Zanzibar is formed by the two isles; Unguja and Pemba, both located in the Indian Ocean. The two sovereign states the Tanganyika and Zanzibar united to form the United Republic of Tanzania (URT) on 26 April 1964 (Bekefi, 2006:10; Mwakikangile, 2010a:11; Mwakikangile, 2008:7; Mwakikangile, 2006:9).

4.2.1   Location Of Tanzania

Tanzania is located in East Africa between 29 degrees longtitude and 41 degrees East latitude, 1 degree North and 12 degrees South. Tanzania is bordered on the South by Mozambique, Malawi and Zambia; on the West by the Democratic Republic

of Congo (DRC), Burundi and Rwanda; on the north by Uganda and Kenya; and on the East by the Indian Ocean (Figure 4.1).

Figure 4.1:   Locational Map of Tanzania
(Source: World map, 2008)

Tanzania is among the five East African states forming the East African Community (EAC). Other EAC member states are Kenya, Uganda, Rwanda, and Burundi. The East African Community where Tanzania is the member state as indicated before was originally found in 1967. By then it had three member states: Tanzania, Kenya and Uganda. The community collapsed in 1977 and officially revived on 7 July 2000 of which later Rwanda and Burundi joined as new members. In 2008 after negotiations with the Southern Africa Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMMESA), the EAC agreed to

an expanded free trade area including all five member states. The EAC is one of the pillars of the African economic community. In 2010, the EAC launched its own common market for goods, labour, and capital within the region that allow the free movement of goods and services. In this view, it provides an opportunity for member states to explore entrepreneurial opportunities within the region.

4.2.2   Population Of Tanzania

The national housing and population census of 2002 is the recent population census in Tanzania. According to this census, Tanzania had a population of 34,569,232 people. Based on the national average annual population growth rate of 2.9 percent, it is estimated that in 2009 the population was around 41,915,799 people both in the mainland and Zanzibar (Ministry of Finance and Economic Affairs, 2010:100). The Tanzania mainland had an estimated population of 40.7 million people (East African Community, 2010:6; Ministry of Finance and Economic Affairs, 2010:100) and the Tanzania Zanzibar had an estimated population of 1.2 million people (Ministry of Finance and Economic Affairs, 2010:100). In view of the population figures, Tanzania herself forms the largest part of market among East African countries. With the East African common market protocol that allow free movement of goods, capital and services within the region, coupled with the combined population of East Africa that was estimated to reach 126.6 million people in 2008 (East African Community, 2010:6) it provides potential market opportunity for Tanzania entrepreneurs.

4.2.3   Study Regions In Tanzania

Although Tanzania is formed by the mainland and island, this study focuses on the mainland side, specifically three administrative regions namely; Morogoro, Dar es Salaam and Iringa. The selection of the three administrative regions was based on the relevance of the region to the theme of study, convenience, and accessibility. Morogoro region is one of the administrative regions that had several state owned enterprises which were later privatised during the structural adjustment, consequently laid off workers joined SMEs as an alternative way of earning a living. Dar es Salaam is the economic hub of Tanzania where several business activities are taking place and Iringa is one of the regions with several private processing

enterprises, survived nationalisation during Arusha declaration. The details of each administrative region in this study are given in the subsequent sections.

4.2.3.1   Morogoro region

Morogoro region is located in the central Eastern part of Tanzania about 200 Kilometres west of Dar es Salaam. The region has six administrative districts namely Morogoro rural, Morogoro urban, Kilosa, Kilombero, Ulanga, and Mvomero (Figure 4.2). Before economic reforms, the Morogoro region had well developed industrial complex with various types of factories such as Morogoro Canvas Mill, Morogoro Shoes Ltd, Morogoro Ceramics, Morogoro Leather Goods, Morogoro Polyester Textile Mills Ltd, Morogoro Tobacco Processing Factory, Magunia Ltd, and Morogoro Vegetable Oil Mills. With the economic reforms of the mid 1980's all industries were closed down and privatised, but since then only few enterprises such as Morogoro tobacco processing factory, Morogoro leather goods, Morogoro polyester textile Ltd, Magunia Ltd, and Morogoro canvas Mills are operational, though below full capacity (Ministry of Finance and Economic Affairs, 2008a). Consequently, workers who used to work in these factories after closing down were absorbed by the SME sector (Olomi, 2009:14).

Figure 4.2:   Locational map of Morogoro region
(Source: Own drawing)

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4.2.3.2   Dar es salaam region

Dar es Salaam is the commercial city in Tanzania with the largest sea port and the gateway to East and Central Africa and the rest of the world through the Indian Ocean and Mwalimu Nyerere International Airport (Figure 4.3). According to confederation of Tanzania industries (CIT) in Bekefi (2006:12) about 70 percent of Tanzania industries are in and around Dar es Salaam. In this regards, most business activities are taking place in the region with a mixture of people from other regions in the country, neighbouring countries, and the rest of the world. In light of this, Dar es Salaam is regarded as the most active business region in Tanzania with a blend of entrepreneurial culture compared to other regions in the country.
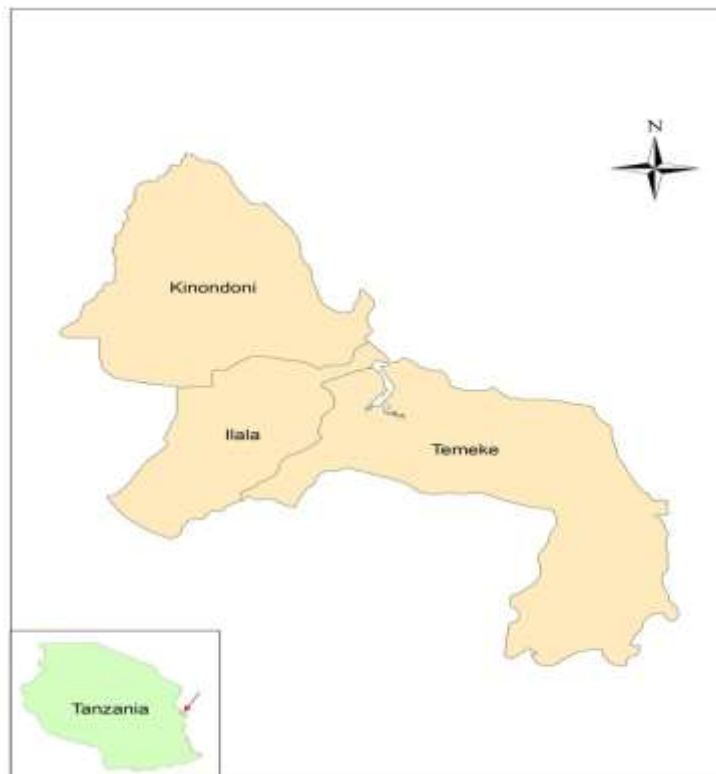
Figure 4.3:   Locational map of Dar es Salaam region
(*Source: Own drwawing*)

4.2.3.3   Iringa region

Iringa region is located in the Southern highland of Tanzania, comprised of six administrative districts; Iringa Urban, Iringa Rural, Kilolo, Mafinga, Njombe, Ludewa,

and Makete (Figure 4.4). The region is the home of famous private investments that survived nationalisation during Arusha declaration in 1967. Some of the private enterprises that survived nationalisation includes; Tanganyika Wattle Company Ltd, Mufindi Tea Company Ltd, and Brooke Bond Tea Company Ltd. In addition to these private companies, the government introduced several state owned enterprises which later closed down as a result of privatisation policy in the early 1990's (Ministry of Finance and Economic Affairs, 2008a:3; Temu and Due 2000; Kristiansen, 2004). Such public enterprises include Mgololo Paper Mills, Mufindi Pyrethrum Processing Company Ltd, National Milling Cooperation, and Sao Hill Company. However, all these processing enterprises were privatised and are no longer in the hands of the public.
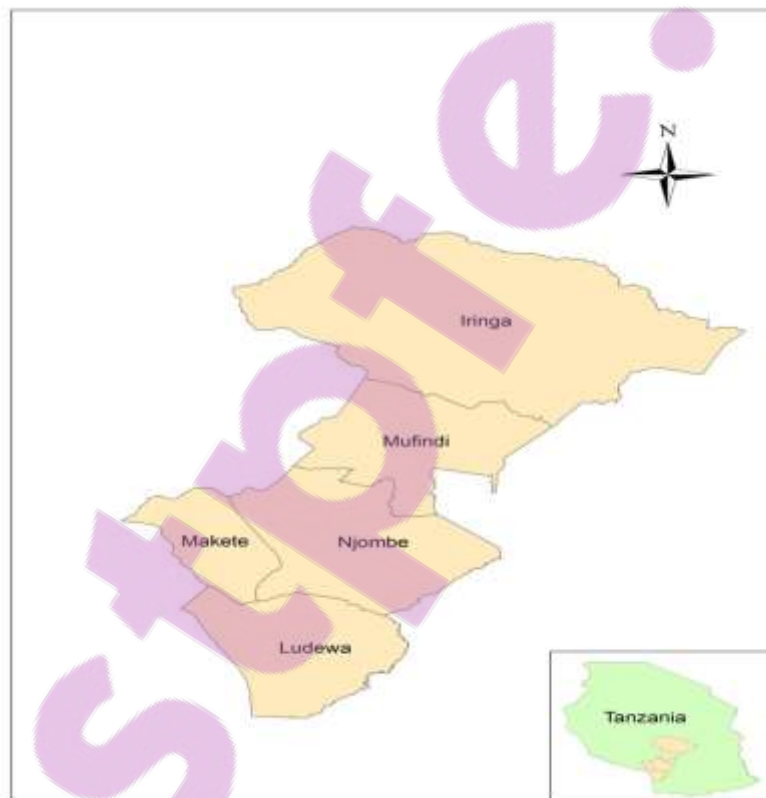
Figure 4.4:   Locational map of Iringa region

(*Source: Own drawing*)

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4.3 TREND OF SOCIO-ECONOMIC DEVELOPMENT IN TANZANIA

The literature clearly indicates the influence of sociocultural, political, and economic factors in development of entrepreneurship. Welter and Smallbone (2011:107) emphasized a need to interpret entrepreneurial behaviour in the context of socio-economic, political, and cultural environment in which it occurs. The socio-economic cultural and political development influences the attitude of the people towards the entrepreneurship initiatives. Based on this arguments it was considered crucial to review the socio-economic and political development of the study area.

4.3.1   Socio-Economic And Political Development

Since existence, Tanganyika and then Tanzania, has gone through a number of social, political, and economic reforms in an effort to attain economic development. Such efforts include; Tanganyika's first five year development plan (1961-1966), foreseen to develop the economy by attracting foreign direct investment (FDI) (Mwakikagile, 2006:43), Arusha declaration in 1967 through which the Tanzania government adopted a radical transformation to a socialism development strategy through Arusha declaration aimed at abolishing exploitation of humankind and attain social economic empowerment among citizens (Bekefi, 2006:10; Ministry of Finance and Economic Affairs, 2010:2; Mwakikagile, 2006:38), the Structural adjustment that began in the mid-1980's as a consequence of economic crisis experienced since the mid-1970's intended to create enabling environment for private sector development (Kristiansen, 2004:376; Mwaigomole, 2008:96; Kapinga, 2008:92).

All these political, social, and economic changes had several impacts on the development of entrepreneurship and SME sector in Tanzania. Welter and Smallbone (2011:108) argued that the context has impact on the nature, pace of development, and extent of entrepreneurship as well as how entrepreneurs behave, since the socio-cultural and political institutions influence entrepreneurial attitudes and motives. Tanzania is one of the low income countries in the world with per capita income estimated at USD 524.8 in 2008 (East African Community, 2010:29), the economy is heavily depending on agriculture that accounted for about 24.6 percent of Gross Domestic Product (GDP) in 2009 (Ministry of Finance and Economic

Affairs, 2010:2), contributes 75 percent of merchandise exports; employs about 80 percent of the population and provide linkages with the none farm sector. According to the economic survey of 2009 the contribution of other economic sectors is such that the share of services economic activities to GDP recorded at a tune of 43.6 percent, followed by industrial and construction sector that contributes around 22.0 percent of the GDP. The trade sector accounts for around 16 percent of GDP and the manufacturing sector contributing 8.6 percent in 2009 slightly higher compared to 7.8 percent in 2008 (Ministry of Finance and Economic Affairs, 2010:2). However, the general trend of economy has gone through a number of crisises which are briefly presented in the next section.

4.3.2   Economic Turbulence And Impact On Business Performance

The Tanzania economy sustained growth between 1960's and early 1970's (Bekefi, 2006:10). However, the period between 1970 and 1980s experienced a series of economic recession that caused economic dilemma (Kristiansen, 2004:377; Kristiansen and Mbwambo, 2003:366). The external shocks that resulted into the economic crisis include; the oil shock in 1973 triggered by reduced supplies of crude oil in the world market by the Organization of Petroleum Exporting Countries (OPEC) resulted into higher oil prices, collapse of commodity prices in 1970's and 1980's (Bekefi, 2006:11) such that Tanzania dependence on export of agricultural raw material suffered more, consecutive drought in 1973/74 and 1981/82, break up of the East African Community in 1977, and the Tanzania–Uganda war in late 1978 to 1980 (Mbeki, 2005:3; Bekefi, 2006:11; Mwakikagile, 2010b:312). Other factors that pushed the economic crisis in the 1980's, include the weak agricultural policies, which favoured cash crops at the expense of food crops and poor performance of state owned enterprises (Temu and Due, 2000:685; Bekefi, 2006:10).

The economic catastrophe resulted into several social devastations to the Tanzania general public. Some of the impacts associated with the economic crisis include; the annual change in income per capita that declined from 2.5 percent during 1965-1970 to -1.6 percent during 1980–1985, rising inflation and poor performance of public enterprises (Kristiansen, 2004:377; Kristiansen and Mbwambo, 2003:366). Devaluation of Tanzania currency (TAS) coupled with the poor performance of state

owned enterprises, drained government revenues that could otherwise be allocated to social services, which by then were offered freely by the government to her citizens, consequently, the deterioration of social services such as education and health. Other crises were severe shortage of basic consumer goods such as sugar, salt, edible oil, soaps, kerosene, cloth, batteries, corrugated iron sheets, beer, soft drinks and cigarettes (Sharpley, 1985:85).

It should be remembered that at this period the level of entrepreneurship in the country was very low since the private sector was almost none existing and all trade operations such as production, distribution and sales were in the hands of the state owned enterprises that proved to be inefficient (Temu & Due, 2000:684; Ministry of Finance & Economic Affairs, 2008a:3). This observation is shared by other scholars who noted that following independence up to the mid-1980's the macro policy environment in Tanzania discriminated the development of the private enterprises (Kristiansen, 2004:377; Kristiansen and Mbwambo, 2003:366; Mongula, 2004b:18) that could drive the entrepreneurship development in the country. Consequently, the prevailed policy environment stunted the entrepreneurship development by undermining the role of the private sector.

4.3.3   Initiatives Toward Economic Liberalisation

Failure of the public enterprises to render expected services in the early 1980's was the beginning of the government to redefine the direction of the economic management and consequently, pushed the government to negotiate with the International Monetary Fund (IMF) and the World Bank (WB), to address the economic crisis (Kristiansen and Mbwambo, 2003:367; Mwaigomole, 2008:95; Temu and Due, 2000:685). According to Mwaigomole (2008:96) the home grown reform effort was executed through the national economic survival programme (1981–1982) and the second attempt was through the Structural Adjustment Programmes (SAP's) from 1983 to 1986, both aimed at closing the fiscal gap and addressing macroeconomic stability. The initial reform effort was followed by a more bold generation of reforms which included, two Economic Recovery Programmes (ERP) from 1986 to 1989, followed by the Economic and Social Adjustment Programme (ESAP) in 1989 to 1992. In terms of the policy, the programmes sponsored by the

IMF and the WB resulted in a major change in Tanzania's policies for economic management, with the emphasis placed on trade and economic liberalisation of which all together was a new beginning for entrepreneurship development in the country.

The liberalisation of the Tanzania economy from state-led economy to a market-driven one redefined the role of the government to engage in business and remained with that of creating an enabling environment for the private sector to take lead in economic development (Kapinga, 2008:92; Mwaigomole, 2008:96). Since then, amongst others the government remained with the role of formulating policies, maintaining law and order, providing basic social and economic infrastructure, and facilitating economic growth (Kristiansen, 2004:376). Accordingly, public monopoly in the financial sector is no more, as most of the public enterprises in the industry, commerce and services have been privatised (Temu and Due, 2000). It was the first time in history that the government opened doors for entrepreneurs from private sector to take lead in economic growth, which implied a positive shift for entrepreneurship development in the country.

4.3.4   Adoption Of IMF And WB Sponsored Programs

The adoption of IMF and WB sponsored programmes in the mid-1980's shaped the economy and contributed enormously to improvements in the performance of the economy (Kristiansen, 2004:377; Mwaigomole, 2008:104). According to the economic survey of 2007; the economy grew by 7.1% in 2007, from 4 percent in 1999 and 4.7 percent in 2000 and 6.7 percent in 2006 (Ministry of Finance and Economic Affairs, 2008b:1). Similarly, the inflation rate declined continuously since 1994 from 35.5% (Ministry of Finance and Economic Affairs, 2005:3) to 4.2 percent in 2004, the lowest ever since 1973 according to the Bank of Tanzania (United Republic of Tanzania, 2005:1). However, the inflation increased continuously from 4.7 in 2005 to 12.1 percent in 2009 mainly triggered by severe drought in 2006/07, followed by the global financial crisis in 2008/09 (Ministry of Finance and Economic Affairs, 2010:5).

However, it is worth noting that the recorded economic growth was not reflected in the living standard of the ordinary Tanzanians. For example, the economic reforms of 1990's that involved privatisation of public enterprises was associated with a significant reduction in wage employment through retrenchment (Afican Forum and Network on Debt and Development, 2007:16). At the same time, as a result of the economic social adjustment programme, the cost of living rose due to the introduction of cost sharing in social services such as education, water, and health. In rural areas the situation was compounded by rising production costs due to the removal of subsidies in agricultural inputs that resulted in the diminishing output (Temu and Due, 2000:685; Kristiansen and Mbwambo, 2003:372), a situation that created both social and economic hardships amongst rural dwellers and prompted rural–urban migration. Given the shrinking of wage employment since the 1990's, the SME sector that is easier to set up in the Tanzania environment absorbed these new entrants in urban areas (Kristiansen and Mbwambo, 2003:372).

In light of the above, it is clear that the previous efforts of the government with the support from IMF and WB to create sustainable macroeconomic stability were successful. However, this success were not realised at the micro level that could benefit directly the citizens. In this regard, since 2004 the government took this as a challenge and embarked on the implementation of the national economic empowerment policy with the objective of promoting, amongst other things, a stable broad based economic growth that ensures the economic prosperity to all people (Ministry of Finance and Economic Affairs, 2008a:4). This view is shared by Mwaigomole (2008:97), who noted that while the economic recovery programmes succeeded in redressing the macroeconomic stability, they were not successful in cushioning vulnerable groups of the people from the effects of the structural adjustment. In this view, the national economic empowerment policy intended to address this challenge.

4.4   ENTREPRENEURSHIP DEVELOPMENT IN TANZANIA

The entrepreneurship development in any society is mainly influenced by the political, social, culture, and economic changes taking place in that particular society (Welter & Smallbone, 2011:107). In this view, this section presents trend of

entrepreneurship development in Tanzania in the light of political, social, culture, and economic changes took shape before and after independence. In all these periods it presents, the major events took place and their implication on the entrepreneurship development.

4.4.1   Period Before Colonial Invasion

During this period, the indigenous people of Tanganyika, later named Tanzania, following the union between two sovereign states Tanganyika and Zanzibar, had a well established political system and local institutions to govern their socio-economic welfares. By then the dominant ruling systems were the state organization, kinship or clan organization, and social orders or age set organizations (Mwijage, 2004). The state organizations that existed in Tanganyika during the 15th century were; Gogo, Nyamwezi, Sukuma, Chagga, Hehe, and Ngoni of which all were headed by chiefs. The famous kinship or clan organization in Tanganyika includes the Makonde and Makua with the increase in population and economic strength these clans were subsequently transformed into large states. With regards to the age set organisations, the Maasai of Tanzania mainland offers the best example.

In all these social cultural and political organisations they had the ruling class and the ruled class, the forma was responsible for all economic and social decisions in the area of their jurisdiction. Although, there were some economic activities taking place in various social political organizations such as butter trade and cottage industries mainly blacksmithery, weaving, woodwork and tinsmithery, but still all decisions were made by chiefs or the ruling class and the ruled class had no opportunity to practice decision making (Mwijage, 2004). In view of this, it denied the ruled class the right to practice decision making that is crucial for entrepreneurship development. The dominant mode of production was communal; the relations of production were based on collective labour and common ownership of means of production that determined the collective appropriation of products.

Individuals who became socially and economically powerful and those who demonstrated ambition were perceived as a threat to the rulers and were eliminated (Olomi, 2009:11). This culture never cultivated the entrepreneurial spirit, but rather

created dependence syndrome amongst community members that is a barrier to entrepreneurship development.

4.4.1.1 Integration of Tanganyika into the world economy

The integration of Tanganyika in the world economy was recorded since the beginning of contacts between Tanganyika and the outside world such as Asia and the Middle East (Mwakikagile, 2010a:12). The occupation of the islands and the coastal areas of Tanganyika by Asian societies resulted into inhuman slave trade. The slave trade shattered the spirit of technological innovation among Africans that is important for entrepreneurship development. During the slave trade regime the varsity majority of the African population were not settled to engage in technological advancement. Energetic, creative, and innovative people were the target of slave trade. The population left behind was weak and helpless for it rarely internalised the entrepreneurial skills and knowledge that existed and was not able to pass on to the next generations. In light of this, the slave trade destroyed the role models and limited the sustainability of the entrepreneurship development in the country.

The Portuguese also had early contacts with the coastal people in the 1500's but their impact was minimal compared to that of the Arabs whose culture became dominant especially after introduction of Islamic religious. The Oman Authority played a great role in the expulsion of the Portuguese from occupation of East Africa in the 17th Century. In the 19th Century the Oman administration was established in Zanzibar (Tanzania Island) for economic and political reasons (Mwakikagile, 2006:9). Some Arabs settled in the Tanganyika coast before colonization by Europeans to exploit trade in Tanganyika, where indigenous African's were used as middle men (Mwakikagile, 2010a:12). The major products involved in butter trade between Arabs and indigenous Africans were beads, polyssain, and spice that were brought by Arabs from the middle-East and Asia and were exchanged with slaves, copper and ivory. The Arabs rulers introduced clove economy in Zanzibar; hence slaves from the Tanganyika were the only solution to the labour problem. This later implanted racism, inequality, and tribalism which subsequently created both social and political tensions in both parts Tanganyika and isles (Zanzibar), a situation that frustrated the entrepreneurial development in the country.

4.4.2 Colonial Domination

The colonialism involved the acquisition of economic and political control in order to exploit raw materials, markets, cheap labour, and new areas for investments. Historically Tanzania fell under two different colonial masters originating from different countries in Europe i.e. the Germany and British. The domination of Germany in Tanzania is recorded since 1886, after the 1884 – 1885 Berlin Conference, which partitioned Africa (Mwijage, 2004). The British took over Tanganyika following Germany's defeat during World War I (Mwakikagile, 2006:16). The colonialism regime introduced a cash economy in which money became the medium of exchange in trade. This led to the development of infrastructures that aided transportation and hinterland resources to the coast ready for shipping to the colonial master's home countries (industrialised countries). This was followed by introduction of a series of taxes including the development levy that was paid by each adult individual.

During this period, cash crop economy, plantation agriculture, settler economy, and the mining of minerals deposits, developed rapidly. Thus commercialized farming was either introduced or strengthened where it existed in order to double the volume of exports (Mwaikagile, 2010). Since these activities are associated with the generation of wealth and development of economic infrastructure in one way or another have direct impact in the entrepreneurship development. In this regard, this section briefly examines the impact of colonial administration on entrepreneurial development in Tanganyika and then Tanzania. In this view, the negative and positive impacts of colonial regimes are presented.

4.4.2.1 Negative impacts of colonial regime on entrepreneurship development

After a protracted occupation by the unsuspecting traders, explorers and missionaries from Europe since the 15th century, Tanganyika found itself being subjected to a systematic colonial domination by Germany and Great Britain at different times before 1961 (Mongula, 2004b:18; Mpangala, 2004:2). The Great Berlin conference of 1884–1885 was the catalyst of all what had happened for

conquering Tanganyika and Africa (Mwijage, 2004). During the domination of Tanganyika by Germany and British, the indigenous people were marginalised, lost their destiny and cultural identities, were economically exploited and their technology disrupted (Mwakikagile, 2010a:33). This did not only affect the social and cultural setting of indigenous people, but also frustrated the entrepreneurial initiatives among indigenous people.

Moreover, the colonial regime introduced laws, regulations and policies that consistently aimed at making the colony a producer of raw materials for use in industrialised countries, the potential market of finished goods from the colonial masters, source of cheap labour and new area of investment of accumulated capital (Mpangala, 2004:2; Mwijage, 2004:83). The adopted strategy was to introduce money as a medium of exchange coupled with a series of taxes, such as development levies that were mandatory and paid by each individual. These had two impacts, firstly it destroyed the butter system that was a dominant mode of exchange, and secondly it created a demand for money for people to be able to meet the cost of living, including servicing the taxes. The only source of money was to work in estate farms and mining industries, which were owned by settlers who dictated the terms of payment. In this case, payments made to labourers were a subsistence amount.

The introduction of cash crops provided base for the colonialists to consolidate power over the local population. State corporations favoured private monopolies from the colonial powers. Home country brought cash crops from the peasants. Either way, the farmers got the worse end of the bargain as they were paid at far below world market price (Mbeki, 2005:3). This practice had negative implication on entrepreneurship development because it limited the abilities of entrepreneurs to do meaningful savings that could be used to invest in new ventures. On the other hand, the import of finished goods from colonial masters frustrated the cottage industries developed during the pre-colonial era and this killed the spirit of creativity and innovation which are necessary for entrepreneurship development (Mwijage, 2004:77). In this way, the indigenous people became dependent on their colonial masters. Their entrepreneurial activities were mainly in the area of distributive trade

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that does not support rapid entrepreneurship development and economic growth as reversed to manufacturing (Mbeki, 2005).

The colonial policies also deliberately restricted participation of indigenous Africans in business activities except for very small forms of business (Ministry of Finance and Economic Affairs, 2008a:2). The indigenous people were regarded as cheap labour to work in industries or estate farms established to satisfy growing needs of the raw materials in industrialised countries. To a lesser extent policies relaxed to Tanzanian-Asians origin who participated in banking, insurance, manufacturing, import and export (Mongula, 2004b:18; Temu and Due, 2000:864). In financial sector for example, the commercial banks and other institutions were foreign owned and served a small segment of the economy and offered credit to Whites and Asians only. They could easily comply with the loan conditionality set by the banks. This practice denied an opportunity for indigenous people to access start-up capital to start and grow businesses.

In addition, the education offered during the colonial period was discriminatory in nature with three different curriculums. The first curricula was Whites, meant to prepare rulers and technocrats, the second curricula was Asians meant to prepare them for clerical jobs, the third curricula was indigenous Africans meant to make them understand to read and write in order for them to receive instructions and be able to communicate with the ruling class (Mwakikagile, 2010a:39). Mwijage (2004) contend that education is an endless socialisation process whereby the knowledge, values, and skills of the society are transmitted to the younger generation. In this view education package offered to indigenous as it can be learnt was not geared to prepare indigenous to acquire knowledge and skills that help them to be enterprise minded.

The colonial strategy to undermine Africans' socio-economy was a deliberate move to disempower the indigenous Africans and make them easy to rule (Mwijage, 2004). The colonial political system deprived the indigenous Africans the economic and political power,a situation that left them with no ability to do anything meaningful in the society (Mwakikagile, 2010:33). Such an environment had a negative impact on the development of entrepreneurial culture consequently discouraged creativity,

innovation, proactiveness, aggressiveness and competence which are prominent entrepreneurial values necessary in competitive environment.

4.4.2.2   Positive impacts of colonial era

Although the colonial administration sighted to be responsible for drawback of entrepreneurship development in Tanzania, there are some positive aspects that contributed to enhance entrepreneurial culture in some parts of the country and deserve mention. For example, the European missionaries who settled in some parts of the country introduced Christianity, education, health facilities (hospitals), commercial crops, and farmer's cooperatives. The followers of Christianity were allowed to attend missionary schools, get health services from hospitals and grow commercial crops which were sold to cooperatives ready for export. Although some authors argue that Christianity was meant to prepare indigenous Africans to be obedient and accept colonial rulers and the education system was meant to prepare few individuals to work in clerical jobs, in reality the introduction of commercial crops was associated with construction of economic infrastructure such as railway lines, roads and telecommunication. All these together advantaged communities in such places and made fast progress in terms of economic development. Clear evidence is Kilimanjaro, Bukoba and Southern highlands regions of Tanzania. In these regions communities are by far enterprise minded compared to other regions in the country and they are quite ahead in terms of economic infrastructure development that foster entrepreneurship development.

Similarly, the indigenous social and political organisations (chiefdoms) engaged in trade with the foreign traders such as Europeans and Asians or Arabs, in particular acquired wealth and became strong kingdoms. According to Mwijage (2004) the Nyamwezi society which had several chiefdoms were involved in the long distance trade with coastal Arabs and Swahili traders. The Nyamwezi traded copper, ivory and slaves who were raided from neighbouring kingdoms, also taxed all foreign trading through their land as another source of revenue. The Nyamwezi gained a lot of wealth from this trade and their political leaders used this wealth to acquire firearms and ammunitions from coastal Arabs and Swahili traders. The growth of

Nyamwezi kingdom is a clear indication that is due to entrepreneurial culture development as a result of interaction with foreign traders.

Subsequent domination of Arabs and Europeans in Tanzania created social and political pressure among indigenous and triggered series of struggle movements for independence. Among others, "Maji Maji" uprising in 1905 to 1907 is a typical example of Ngoni in Southern Tanganyika resisting domination of Germans (Iliffe, 1967;497; Mwakikagile, 2006:18). The end of the Second World War in 1946 Tanganyika became a United Nation (UN) trusteeship territory and that was the beginning of the modern struggles for independence which were characterised by a series of political party movements (Mwakikagile, 2010:13). In Tanganyika, the strongest political party was the Tanganyika African National Union (TANU) that aimed at struggling for independence. It was under the same political party that Tanganyika declared independence in 1961 (Mwakikagile, 2006:19). Similarly, in Zanzibar, the Afro Shiraz Party (ASP) emerged late in the 1950's and overthrew the Arab rule on the island in 1964 of which in the same year Tanganyika and Zanzibar united to form the United Republic of Tanzania. The independence of the two sovereign states changed the social economic and political landscape which eventually opened up a new environment for the entrepreneurship development in the country.

4.4.3 Development Strategy After Independence

Following independence the government aimed at changing the social economic and political environment that promotes equity among people of Tanzania. To attain this, the government developed a series of development strategies with the intention of attaining equity and sustainable development. Since these strategies intended to attain social and economic empowerment among the indigenous, in this view, they had direct impact on entrepreneurship development. For this reason the next section briefly review these strategies and gives an account of their impact on entrepreneurship development.

4.4.3.1 First five years development plan (1961–1966)

After independence the government of the then Tanganyika was ambitious to attain high economic growth and social development. The government development vision was to attain economic empowerment among citizens and fight three enemies; poverty, diseases and ignorance (Mwakikagile, 2006:42). To achieve this vision, the government developed a first five years development plan (1961 – 1967) envisaged developing the economy by attracting foreign direct investment (FDI). Throughout this period the government retained the economic system inherited from the colonial master (British) of which all the economy and major means of production were still in the hands of few individuals especially the foreign settlers and Asians who owned estate farms, commercial banks, insurance firms, hospitals, schools, large manufacturing, and transport (Temu & Due, 2000:684; Ministry of Finance and Economic Affairs, 2008a:2)..

Since before independence the distribution of wealth was skewed to few individuals especially settlers. The retention of the colonial economic system after independence did not help much to bring changes in terms of economic empowerment amongst the indigenous. Towards the end of the first five years development plan, the FDI was not flowing as expected and there were concern that not much had been achieved in terms of addressing the legacy of the marginal position of Africans in the economic sphere left by the colonial government. The leaders by then were in the opinion that the nation got political independence and not economic independence (Ministry of Finance and Economic Affairs, 2008a:2) necessary to determine the direction of economic growth and social development, hence a need to have an alternative development strategy. The leaders by then opted to nationalise the private investment as a means to attain equity among citizens.

4.4.3.2 Nationalisation of private enterprises

The failure of the first five year's development plan to address the legacy of the marginal position of Africans in the economic field, compelled leaders to identify socialism (*ujamaa*) as an appropriate development strategy characterised by policies

based on extensive state control of the economy (Temu and Due, 2000:684). The Arusha declaration was aimed at economic empowerment of Tanzanians so that they could take command of the economy (Ministry of Finance and Economic Affairs, 2008a:2). The Arusha declaration was a radical change in the national economic sphere that involved nationalisation of major private economic activities owned by foreign investors (Ministry of Finance and Economic Affairs, 2008a:2; Temu and Due, 2000:684). The nationalised investments included banks, plantations, private companies, factories, manufacturing, transport, import-export, insurance firms, schools and hospitals (Mongula, 2004b:18; Temu and Due, 2000:684; Bekefi, 2006:10). The nationalised enterprises were transformed from private to state owned enterprises and were engaged in the production sector and provision of services (Ministry of Finance and Economic Affairs, 2008a:2). Mbeki (2005:3) pointed that all modern schools of political thought from Marx and Lenin to Hayek and Freedman despite of their ideological differences, at least agreed on one thing: the private sector is the driver of modern economic development. The nationalisation of private enterprises was the biggest set-back for entrepreneurship development in Tanzanian history, since it destroyed the role models that others could use as a learning ground when intending to start and grow businesses.

The government immediately after nationalisation through socialist policy discouraged private enterprises on the expense of public enterprises. According to Mongula (2004b:18) the private sector involvement was limited to retail business which was mainly operated by Tanzanians minority of Asians origin while indigenous Tanzanians were restricted to peasant farming or plantation labourers. Even at this level, the state owned Regional Trading Company's (RTC) posed severe competition against small scale private owned retail businesses because they enjoyed monopoly of macro-policy environment (Kristiansen, 2004:377; Temu & Due, 2000:684). The production by small farmers was strictly under the communal rural groupings called *"ujamaa"* villages. The marketing of produce was through state owned crop authorities or cooperatives that were amongst other duties responsible for setting purchasing price of farmer's produce. The farmers had no power to negotiate price for their crops. According to Temu & Due (2000:684) the earning received by farmers were the residual price, derived from the World market (for export) or retail price (for domestic food crops), less marketing costs, taxes and any other deduction deemed

necessary by the government. As a result peasant received subsistence amounts that were only enough to serve a plate of a meal on a table and limited the ability of deriving meaningful savings that could allow them to grow their businesses. It is through this practice the government is blamed for frustrating the entrepreneurial initiatives in the country.

With regard to capital, credit was controlled in favour of co-operative farmers and state farms till the liberalization of policies of the mid 1980's. Since all financial institutions such as commercial banks were nationalised and owned by state (Mongula, 2004b:18). The government intervention to control capital and credit facilities in favour of the cooperatives and state owned enterprises deprived the right of the private sector entrepreneurs to source start up and expansion capital. Lack of accessibility to credit facilities among entrepreneurs in SMEs, is one of the major constraints that hindered the development of the sector in Tanzania.

The government also introduced a code of ethics that restricted the civil servants and other public officials to engage in any business activities. Any profit seeking venture performed by a civil servant lacked legal legitimacy and was considered economic saboteur (Temu & Due, 2000:684). By then few Africans were educated, for this reason educated Africans were civil servants, this imply that by restricting the civil servants to engage in business activities left Asians and Africans with no jobs, while the majority had no substantial education to engage in business activities. This strategy again was a snag for entrepreneurship development in the country. Education is important for entrepreneurship development for several reasons; through education people build networks which are important to share business information, physical resources and access to new markets. These all together are essential for entrepreneurship development. By restricting elite to participate in business undertakings was another drawback for Africans to take an active role in entrepreneurship development. It was from this period where the education system prepared to graduate to be job seekers and not job creators; whoever graduated at any level of education the first expectation was to be employed by the government and stay away from self-employment. This slowly killed the entrepreneurial spirit amongst elites; entrepreneurial venture was regarded as an activity for uneducated and people who do not have an option for survival.

The setup of socialism policy was centred on collectivism; people lived together, worked together, shared resources and made collective decisions on all issues that affected their daily life. Although theoretically people were supposed to make collective decisions where one would expect bottom up approach, in contrary the government practiced top down approach where people were instructed what to do and what they should not. For example the government instructed people to form community based investments; type of crops to grow in specific areas, regulated prices of various products even the salaries of civil servants (Temu &Due, 2000). In addition the government provided free social services such as education and health services for her citizens and free transport for civil servants and students. While this practice was good and enabled poor people who were in the majority, to access free health services, educate their children and address the problem of ignorance and poverty, on the other hand, created dependency syndrome and killed the spirit of creativity, innovation, drive towards need for achievement, willingness to take risk, proactiveness and aggressiveness towards opportunities which are key pillars of entrepreneurship.

Initially, the public enterprises after nationalisation performed well between 1967 and the early 1970's before the nation stumbled in a series of misfortune economic events. These events include the oil crisis of the early 1970's resulted from reduced supply of crude oil in the world market by the OPEC (Bekefi, 2006:11), collapse of the East African community in 1977 (East African Community, 2010), immediately followed by the war between Tanzania and Uganda in 1978–1979 (Mbeki, 2005:3; Bekefi, 2006:11). The oil crisis in 1973 pushed up oil price that was reflected on higher prices of consumer goods. The collapse of EAC in 1977 was another blow to Tanzania because most of the manufacturing industries during the EAC were located in Kenya and by this time diplomatic relationship between Tanzania and Kenya was not favourable a situation that lead into a closure of boarders between the two countries. Followed by the war between Tanzania and Uganda, it worsened the economic situation. These crises all together drained foreign currency reserve, impaired the purchasing power, shortened the supply of consumer goods, triggered inflation and continued to decline of the crop prices in the world market. A series of these events signalled a total failure of formal economy to serve the society and left

an economic vacuum that needed to be filled in order to stabilize the economic system. This was the beginning of the emergence of the parallel or second economy to fill the gap left by the formal economy.

4.4.3.3   Emergence of second economy

In view of the above, wage earners and farmers were pushed to engage in petty business activities to supplement their income to be able to meet their basic needs. Since the ethics of conduct was restricting civil servants and public officials to engage in business activities and the policy environment was not in favour of the private sector, this forced operators to create a series of informal businesses such as backyard factories, smuggling goods from neighbouring countries and hoarding of little consumer products that was available from the local industries and selling the same at inflated prices. The emergence of the second economy was a result of the failure of the formal economy to fulfil the basic economic demand of the society. The rise of the entrepreneurs in the informal sector (second economy) was the evidence that Tanzania did not lack entrepreneurship talents but the problem was lack of supportive policy and regulatory framework (Kshetri, 2009:238). This view, shared by Mongula (2004b:18), pointed that private enterprises were suppressed during the years of socialism after the Arusha declaration in 1967 up to 1985 when the ideology of socialism was the foundation of public policies, thus limiting opportunities for entrepreneurship.

However, the second economy met strong resistance from the state which was regarded as being in conflict with the socialist (ujamaa) policy that aimed at attaining social equity and economic empowerment among citizens through state-owned enterprises and self-reliance. While in the second economy there were some good elements of entrepreneurship that could have contributed to the economic development, the state failed to do thorough analysis to identify good elements that required support and bad elements that were to be stopped. In the contrary the government labelled all players in the second economy as "economic saboteurs" (Temu & Due, 2000:684).

In 1983, the government implemented a ruthless campaign against "economic saboteurs" confiscated property and arresting business owners in the emerging sector. The state economic saboteurs campaign in 1983 created social stigma towards entrepreneurship and delayed the social and political legitimisation of entrepreneurial initiatives in Tanzania. Temu & Due (2000:684) shared similar views that there were severe suppression of the private sector, the government and specifically civil servants considered private entrepreneurs to be economic saboteurs; any element of business initiative and profit generating endeavours was labelled economic saboteurs. This is a clear indication that socialist policy in Tanzania stunted entrepreneurial culture required for entrepreneurship development.

4. 4.3.4   Economic and Policy Reforms

The background history indicates clearly that the decision makers failed to achieve self-sustained growth as the essential pre-condition for any pattern of economic development. In view of this, by the early 1980's the magnitude of the structural weaknesses in it's economic model had come to full light and had forced Tanzania to find an alternative model to invigorate her economy. Despite the socialism narration and nationalistic style, society reality continued to be shaped by capitalist `regulations and dependence. Coupled with the increasing criticism of inefficient and unproductive performance of public owned investments (Temu & Due, 2000:685), the government was viewed as hampering economic development by constraining market forces. It was at this stage in 1986, that the government was forced to adopt economic liberalisation and implemented the radical transformation programme spearheaded by the International Monetary Fund (IMF) and the World Bank (WB) (AFRODAD, 2007:11; Mongula, 2004a:239; Temu and Due, 2000:685).

The economic reform involved liberalization of all sectors of the economy, privatisation of public enterprises and rationalisation of employment in the public sector (Ministry of Finance and Economic Affairs, 2008a:3). The first ten years (1986–1996) were for structural adjustment that involved gradual changes in economic policies from public led economic growth to private led growth that promoted free market economy and local entrepreneurship. This was a turning point for the national development vision, shifting from state monopoly of economy that

involves the private sector in the economic development. The role of the state was redefined to focus on creating a business enabling environment through design and implementation of proper macro-economic framework and eliminating obstacles to efficient functioning of markets (Mongula, 2004a:246).

Successful completion of the structural adjustment during the mid-1990's leads the government to embark on privatisation of public enterprises. The exercise was associated with the retrenchment of sizeable labour force, downsizing and re-engineering of large corporations that intended to improve production efficiency and secure market competitiveness (Cooper *et al.*, 2000:122; Mongula, 2004a:243). Consequently, there was a dramatic change in employment set up in the country. For example, the public sector that initially used to absorb a large number of job seekers from different sources in the country did no longer exist due to privatisation of public enterprises. The private sector that was expected to replace the role of the public sector had not expanded enough to absorb the growing number of job seekers, hence increased pressure of unemployment in the country. Kristiansen and Mbwambo (2003:372) and Olomi (2009:14) conclude that most people who could not secure jobs and workers, who were under paid, started micro and informal businesses to enable them to earn a living.

A shift of policy from socialism to open market economy has encouraged entrepreneurship development in the private sector in the country. Since the mid-1990's entrepreneurship as a career has increasingly acquired legitimisation. The proportion of individuals consciously choosing self-employment, even among the highly educated, has increased. A clear evidence of policy shift amongst others is the review of the leadership code of ethics that, since independence, restricted public officials and civil servants to engage in business activities. The review of the leadership code of ethics is no long restricting public officials and civil servants to engage in any business activities, provided it is legal and does not have conflict of interest on their careers. Also the introduction of the SME policy in 2003 is a positive initiative of the government to legitimatise entrepreneurship in small business entities (Ngalinda & Mutagahwa, 2006:53).

4.5 SMALL BUSINESS DEVELOPMENT IN TANZANIA

There is no single definition of small businesses, as each country uses a different definition (Tusubira & Ndiwalana, 2006:57). However, a small business can be described as the one that is independently owned, managed by its owner or part owner, has relatively small market share, and does not engage in new market and innovative practices (Carland, Hoy, Boulton & Carland, 1984:358). According to Nieman and Nieuwenhuizen (2009:10) "small businesses in most cases are established to meet personal goals and ensuring security of owners and not necessarily interested in growth". The literature supports this observation by pointing that entrepreneurial firms are driven by innovation as reversed to small businesses (Kartz & Green, 2008; Tang & Murphy, 2012:44). It is the innovation that fosters growth in the entrepreneurial firms.

In quantitative terms, small businesses are categorised, based on different criteria in different countries, even within the same country, definitions sometimes tend to differ from one sector of economy to another (Tusubira & Ndiwalana, 2006"57; Esselaar, 2006:49). Despite of all these variations there are mainly some common criteria used to define small businesses with some minor variation between countries on adopted criteria. These criteria are the total number of permanently full paid employees, volume of production or total turnover, total asset values, capital investment in machinery (Tusubira & Ndiwalana, 2006:57). Through these criteria, the small businesses are categorised into small, micro, and medium enterprises (SME's).

While there is an agreement in terms of categories, there is no consensus in terms of cut off points of criteria used to arrive at these categories. For example, the upper cut off point of number of full paid employees in medium enterprises in USA and Canada is less than 500 employees, in the United Kingdom it is less than 250 employees, in South Africa it is 200 employees, in Malaysia for the manufacturing sector it is 150 employees and for agriculture and services it is 50 employees and for Brazil and Tanzania it is less than 100 employees. This implies a medium enterprise in one country not necessarily fall in the same category in another country. For example, a medium enterprise in South Africa will be a large enterprise in terms of number of permanently fully paid employees in Tanzania.

4.5.1 Definition Of SME In Tanzania

The literature of political and non-governmental institutions, provide a wide range of definitions of the term SME. The term SME stands for Small, Micro, and Medium enterprises (Ministry of Industry and Tande, 2003:3; Antonie, 2001:2; Department of Trade and Industry, 1995:4). Just the words "small, micro and medium" indicate that most definitions use the firm size to distinguish between SMEs and larger corporations. Amongst these quantitative elements that seem to be commonly used, are the number of employees, capital invested, share capital, number of shareholders, market share, annual turnover, total asset value, composition of management and degree of formalisation (Ministry of Industry and Trade, 2003:3; Hibbert, 2001:5).

According to the Ministry of Industry and Trade in Tanzania, SME is defined according to the number of employees and capital investment in machinery (Ministry of Industry and Trade, 2003:3; Ngalinda & Mutagahwa, 2006:54). Accordingly, the SME policy of 2003 gives official definition of SME and is defined as small, micro, and medium enterprises in non-farm activities, including manufacturing, mining, commerce and services. A micro-enterprise is one with fewer than five employees, a small enterprise with 5 to 49 employees, a medium enterprise with 50 to 99 employees and a large enterprise with more than 100 employees (Ministry of Industry and Trade, 2003:3). Capital investments in machinery range from less than Tshs 5 million for micro enterprises and up to Tshs 800 million for medium enterprises (Table 4.1). This definition does not differentiate the number of employees and their level of capital investment in machinery in different sectors of the economy. However, the policy states clearly in case an enterprise falls in two criteria stated above, the monetary criteria rules out (Ministry of Industry and Trade, 2003).

Table 4.1: Definition of SME in Tanzania

Category	Number of employees	Capital investment in machinery (Tsh)
Micro-enterprise	1-4 employees	Up to 5 million
Small enterprise	5-49 employees	5-200million
Medium enterprise	50-99 employees	200-800 million
Large enterprise	100+	Over 800 million

Source: SME Development Policy, April. 2003:5   USD 1 = TAS 1600

4.5.2   Structure And Characteristics Of SMEs In Tanzania

There is a shortage of comprehensive data on the state of the SME sector in Tanzania. Most reports on the sector rely on data from the 1991 National Informal Sector Survey (NISS) (Ministry of Industry and Trade, 2003; Ngalinda & Mutagahwa, 2006:54; Ministry of Finance and Economic Affairs, 2008a:19), which is out-dated. Although other studies have been done such as the 1992 Rural Informal Sector Survey (RISS) and the 1995 Dar es Salaam Informal Sector Survey, the NISS 1991 remains the only nationwide study of the informal sector. The structure of SME in Tanzania is considered in terms of categories in the SME development policy that include small, micro, and medium enterprises. The characteristics of each category are briefly discussed.

4.5.2.1   Characteristics of micro enterprises

The micro enterprises are the smallest unit in the business categorisation; most have one to four employees (Shreiner &Woller, 2003:1567). They tend to lack formality in terms of registration for tax purposes, labour legislation, business premises, and accounting procedures (Antonie, 2001:4), which is the case for Tanzania (Stevenson & St-Onge, 2005:7). They are found in both the formal and informal economies and have limited capacity to grow (Rogerson, 2004:770). According to Bekefi (2006:17), 70 percent of Tanzanians are engaged in informal production of goods and services. It is within this category that the survivalist businesses are found (Jeppsen, 2005:265).

The survivalist operates in the informal sector of the economy, mainly undertaken by people unable to secure regular wages employment or access to economic sector of their choice (Antonie, 20001:2; Rogerson & Rogerson, 1997:87). The income generation is below poverty line, which limits saving and growth. Their businesses provide minimum means to keep the unemployed and their families alive, with little capital investment requirement, less asset requirements, virtually no skills, training, and constrained opportunities for business growth (Antonie, 2001:2). Most entrepreneurs in this category involved in hawking, vending and subsistence farming (Rogerson, 1996:171). In Tanzania the survivalists are commonly known as *"machinga."*

In Tanzania it is estimated that the SME sector form over 98% of all active enterprises in the country, of these micro-enterprises form over 92% of total SME in the country (Kozak, 2007). This implies that the dominant category in SME is the micro enterprises. Among several reasons, the complexity of the regulatory framework with unsupportive institutions mentioned to limit small businesses to formalise their undertakings (Ngalinda & Mutagahwa, 2006:53). As a result most businesses decide to remain micro or small and operate informally (Bekefi, 2006). Consequently, large proportions of businesses are unable to build a reputation and be able to assess and acquire expansion capital from financial institutions that could enable them to grow.

4.5.2.2 Characteristics of the small enterprises

The small enterprises are more established and complex businesses compared to the micro enterprises, varies in terms of number of employees and other monetary criteria from one country to another (Ayyagari *et al.,* 2005:4; Esselaar, 2006;49; Tusubira & Ndiwalana, 2006:57). For example, in the United States of America (USA), the small enterprise the most common upper cut off point is 100 employees, while in manufacturing it is fewer than 500 employees. This figure does not compare to countries like the United Kingdom and Tanzania where the upper cut off point is less than fifty employees. This difference is not limited to the United Kingdom (UK) and Tanzania alone; it is experienced in other countries as well.

According to Antonie (2001) entrepreneurs in the small business sector often have some form of collateral that would be acceptable by the formal financial institutions, but it is usually not sufficient to meet their requirements, hence the collateral remains a constraint to access finance. Kuzilwa (2004:125) shared similar views that lack of access to credit is among major constraints in small business in Tanzania and other developing countries. The commercial banks have traditionally concentrated on lending mainly large formal enterprises with collaterals and therefore thought to be less risky. According to a 1997 study on the supply and demand for financial services in Tanzania by K-Rep (1997), less than 5% of enterprises in urban and rural areas in Tanzania had access to credit from formal sources. This proportion of entrepreneurs accessing credit is very low to stimulate entrepreneurial initiatives in the country.

4.5.2.3   Characteristics of medium enterprises

The medium sized enterprises are enterprises with up to 200 paid employees. Although in the case of South Africa, the agriculture sector is up to 100 employees (Department of Industry and Trade, 2003). This is not the case for Tanzania, where according to the 2003 Tanzania national SME development policy, the limit is less than 100 employees (Ngalindwa & Mutagahwa, 2006:54). These enterprises generally have established relationships with bankers and lending to medium and small enterprises is profitable (Antonie, 2001). According to Rogerson (2004:770) this is the category that is regarded as dynamic and contributes significantly to employment as compared to other categories.

In Tanzania, this category constitutes the smallest segment in SME. According to Kozak (2007) the proportional composition of medium enterprise in SME is only 0.6%. Consistently, the Tanzania SME policy of 2003 recognizes this shortfall and clearly indicates that among limitations of the enterprise development in Tanzania, is the missing middle between the large and the small enterprises hence a need to build capacity to enable small business to grow and graduate from one category to another. The literature clearly indicates that the entrepreneurial culture in Tanzania is still underdeveloped and most entrepreneurs in businesses are 'first generation', and are still in the learning process (Nchimmbi, 2002; Ngalinda & Mutagahwa, 2006;

Olomi, 2009; Ministry of Industry and Trade, 2003). Although one can see businesses in every corner of town, most owners of these businesses do not have a growth vision or interest to systematically analyse their business constraints and innovatively respond to address the challenges confronting them.

4.6   Roles Of SME In Socio-Economic Development

The role SMEs play in socio-economic development is increasingly recognised. According to Nieto and Santamaria (2010:44) SMEs in the European Union make up to 99 percent of the industry and account for more than 70 percent of employment. In developing countries, in terms of economic and industrial development, the SMEs are reported to form over 90 percent of enterprises, and account for about 50–60 percent of employment (Befeki, 2006:9). Consistently, Ngalinda and Mutagahwa (2006:54) pointed out that in South East Asia, SMEs account up to 60 percent of GDP. In view of these statistics, no wonder most economies are currently largely composed of SMEs.

Tanzania suffers from reliable statistics on SME (Ngalinda & Mutagahwa, 2006:54). However, it is estimated that close to 80 percent of formal industries are SMEs, each employing between 5 and 99 employees (Bekefi, 2006:10). Similarly, Kozak (2007) pointed out that SMEs form the largest group within the private sector and are estimated to constitute about 98 percent of all active enterprises in the country. The SMEs account for about 34 percent of GDP and 20 percent of jobs in the private sector (Ministry of Industry and Trade, 2003:4). The importance of SME in the economic growth, employment, and income generation compelled the government to develop supporting strategies to enhance survival, growth and the success of the sector. The next section briefly covers the support strategies designed and executed by the government as a supporting mechanism to facilitate the growth of the sector.

4.6.1   SME Support Strategies In Tanzania

Business support services are activities aimed at supporting the creation, survival of businesses, increases business profitability and assist business development and growth. They incorporate information, advice, training and consultancy, financial

services, incubators, networking, and regulatory environment." In Tanzania, as in other countries, business support is paramount to the survival and growth of SMEs. In event where business support services are underdeveloped or not well coordinated, they encourage unethical behaviours amongst entrepreneurs. For example Tang and Hull (2012:135) observed that entrepreneurs operating in a weak regulatory environment where laws and regulations are not recognizing or protecting them, they feel threatened and tend to engage in illegal operations such as violation of property rights or breaking contracts, as well as corruption with the government officials to find legitimacy of their undertakings. Consistently, Tang and Murphy (2012:41) pointed out that absence or inadequacy of business support services increases the risk for entrepreneurs and when feel threatened, they avoid undertaking innovation initiatives which are crucial to increase market share, market value, improve performance and enhance survival.

In Tanzania, several studies indicate that SME suffers from lack of business support services. Specifically, formal financial institutions such as banks, mentioned to be not supportive to small businesses, in most cases don't meet the collateral conditionality (Kuzilwa, 2004:125). Training institutions also have been challenged to offer none entrepreneurial oriented education that generate graduates who are not enterprise minded. These problems might have been contributed to by the background socio-cultural and political system adopted earlier that did not nurture the entrepreneurial culture in Tanzania. However, since the adoption of the open market driven policies, several efforts have been made in terms of restructuring of the regulatory environment to encourage private sector to take lead in economic growth. The next sections present various interventions taken by the government right after independence to date.

4.6.1.1 Establishment of national small industries corporation

An attempt to support SME in Tanzania can be traced back to 1966 when the National Small Industries Corporation (NSIC) was established under the National Development Corporation. The objective of the NSIC was to establish small industries clusters, essentially training production workshops intended to provide knowledge and skill to nascent entrepreneurs in order to develop a pool of

entrepreneurs in the country. With all these efforts made by the government, the policy environment for small businesses, especially the private owned businesses, were still unfavourable (Kristiansen, 2004:377; Mongula, 2004b:18). For example, Kristiansen and Mbwambo (2003:366) contend that following independence, small enterprises in Tanzania were in many ways disadvantaged by large scale and state-owned companies. Consistently, Bagachwa (1993:103) indicates that up to the mid-1980's, before embarking on the structural adjustment, the macro-policy environment in Tanzania were not in favour of the small enterprises. All sorts of development strategies focused on large scale import, substituting and state-owned manufacturing industries. In this view, the NSIC could not easily achieve its objectives since most of the small business operators in the small business sector were not well supported by the existed policy environment.

4.6.1.2   Establishment of small industries development organisation

In 1973, the government took on another initiative to support the small businesses by establishing the Small Industries Development Organisation (SIDO) that replaced the National Small Industries Corporation (Kristiansen and Mbwambo, 2003:366). The establishment of SIDO was intended to expand the obligations of the NSIC by providing basic infrastructure facilities such as premises, water, electricity and training for entrepreneurs. To reach more entrepreneurs, SIDO offices were established in each administrative region of Tanzania and provided training and fabrication or processing facilities for entrepreneurs. Although this was another good initiative intended to support the development of small scale enterprises, the policy environment was not yet to legitimatise the private small scale enterprises. For example, the Government Acts, directives and regulations prohibited the development of private small scale enterprises. This view is shared by Helmsing and Kolstee (1993) that the Ujamaa Village Act of 1975 agrees that all village based enterprises should be communally owned. According to Temu and Due (2000:685) an individual's wealth accrual was not acceptable by the state and community at large and the civil service excessively regulated the private sector. All these together sent a negative signal to the business community and frustrated the entrepreneurship initiatives in the country.

In light of the above, SIDO was obliged to serve more of communal owned enterprises because they were much more favoured by the existed policy and the legal framework than the private businesses which were marginalised. Although this strategy thought to be appropriate, in reality was not helping to nurture the environment for entrepreneurship development. The literature acknowledges the role played by the private sector in economic development. For example Mbeki (2003:3) argued that the entrepreneurs in the quest for greater security and comfort seek to accumulate material wealth that compels them to produce more and exchange what they produce with other individuals who seek the same. For entrepreneurs to produce more, they must generate savings and plough back those savings into the production process in the form of innovation such as the new and improved techniques, processes and products. However, in communal based businesses, it may not have similar drive due to the nature of ownership, conflicts of interest among owners and the set-up of decision making that may not be flexible enough to cope with the pace of environmental change.

4.6.1.3   Financial services

With the approach that used to support communal owned businesses and state owned enterprises, until the 1980s the capital market was heavily subsidised by the financial institutions such as banks owned and sponsored by the government (Kristiansen and Mbwambo, 2003:366). In other words this practice distorted the market forces essential for the development of the robust financial sector. As a result, credit rationing diverted the bulk of funds to the large scale state owned enterprises while leaving a large proportion of small scale enterprises un-served. Bagachwa (1993) supported this argument by pointing that small scale enterprises received only 5.7 percent of funds allocated through the Co-operative and Rural Development Bank (CRDB) in the period 1976/7–1986/7 mainly due to uncompliance with the loan conditionality. This environment denied an opportunity for small scale enterprises to access start-up and expansion capital.

The foreign trade regime employed a rationing system for all essential imports and was characterised by overvalued national currency. This situation created an uneven environment for private small enterprises to compete with the state owned

enterprises which were favoured in obtaining licences, currency exchange and import (Kristiansen and Mbwambo, 2003:366). During the late 1970s and early 1980s, Tanzania's economic performance weakened substantially. According to Kristiansen and Mbwambo (2003:366) the annual change in income per capital declined from 2.5 percent during 1965–70 to -1.6 percent during 1980–1985. The inflation escalated from an average of less than 10 percent per annum 1970–1976, to 31 percent in the years 1980–1986. It was at this time in history, the public enterprises performed poorly and drained government revenue through subsidies (Temu & Due, 2000:685). The domestic market fell short of basic commodities and citizens became accustomed to rationed basic commodities, partly as a strategy to contain social unrest.

In the environment of an open market economy, the government realised these weakness and transformed the financial sector to be able to serve the private sector specifically the SMEs (Temu & Due, 2000:684). Also several initiatives have been taken to easier accessibility of financial services for start-ups and expansion capital. Such initiatives includes establishment of the Credit Guarantee Scheme managed by the Bank of Tanzania with the intention to facilitate accessibility to loans, National Entrepreneurship Development Fund (NEDF) managed by SIDO, Mwanachi Empowerment Fund, Economic Empowerment Programme and Small Entrepreneurs Loan Facility (SELF) (Ministry of Finance and Economic Affairs, 2008a:9). In view of this, it is a clear indication that the government recognises the role of small businesses in economic development and several efforts have been made to support SME sector. However, coordination amongst these programs and policies is still lacking for effective service delivery; consequently SME's still face more or less similar situations as before.

4.6.1.4   Establishment of Tanzania national business council

The economic crisis, market shortages and failure of public enterprises to render goods and services experienced in the early 1980s, created new opportunities for the small enterprises. It was at this stage, entrepreneurs in the private small scale enterprises emerged to fill the gap left by public enterprises. This implies that entrepreneurs were present but suppressed by the existing policies and the

regulatory framework. This argument is in line with the observation made by Kshetri (2009:237) that post socialist economies do not lack entrepreneurship talents. There has been a lack of institutional support needed to promote productive free market entrepreneurship. Since anti-business policies remain unchanged, the rise of the entrepreneurs in the private sector lacked legitimacy in the eyes of the community and the government. As a result, the entrepreneurs in the private sector operated by hiding transaction, none compliance to government regulations, evading tax, and bribing to get licences and permits became pre-conditions to do business (Temu and Due, 2000). Tang and Hull (2012:135) found that unlawful behaviours in businesses are accelerated when entrepreneurial firms do not perceive sufficient protection from regulatory environment and find ways of surviving. This argument reflects the real situation experienced in Tanzania. With respect to existed business environment by mid-1980s, Tanzania needed more than simply an adjustment, but rather a complete structural transformation to legitimatise the private-owned businesses and create an enabling environment for the take-off.

Since the mid-1980s the government embarked on formal economic reforms. This was a positive shift from state control of economy to private sector lead economic growth. Since then, several efforts have been made to promote the private sector. For example, in 2001, with the assistance from UNIDO the Tanzania president's office launched the Tanzania National Business Council (TNBC) to hold discussions with business leaders about economic development and the business climate in the country. According to Bekefi (2006:14) the TNBC addressed the country's legal and regulatory framework that helped to create a favourable business environment for the private sector to operate in.

4.6.1.5 Policy environment

The background information clearly indicates that for many years the policy environment in Tanzania has not been favourable to support SME development. The shift to the open market economy accompanied by the privatization of state owned enterprises created pressure in terms of employment opportunities and social hardships due to the layoff of a number of employees who previously worked in the state owned enterprises (Olomi, 2009:14). Consequently, people who lost jobs

established SMEs as a way of earning a living (Kristiansen and Mbwambo, 2003:372). Despite of the significance of the SME in the socio-economic development, its growth was hampered by several factors including the policy environment that was not supportive. The government realised this short fall and focused to create a favourable policy environment in which the potential contribution of the SMEs can be fully exploited (Ngalinda & Mutagahwa, 2006:53).

In an effort to create a small business enabling environment, the government developed a small and medium enterprise policy that was launched in April 2003 and the Private Sector Development Strategy of 2003 as means to enable the private sector to participate fully in economic development and achieve ends. In 2004 the national economic empowerment policy was introduced after the government realised that most of local citizens did not benefit from privatisation of the state-owned enterprises because they could not afford to access credits from formal financial institutions due to lack of collaterals. The economic empowerment policy was meant to empower local entrepreneurs to participate in economic development.

Coupled with these policies, the government embarked on other initiatives such as developing and launching a Business Environment Strengthening for Tanzania (BEST) (Ministry of Finance and Economic Affairs, 2008a:9). These initiatives were geared to support SME development in terms of minimizing regulatory and administrative costs, risks and barriers to conduct business in Tanzania. Also they were intended to improve policy and regulatory decision-making and service delivery by government to promote a better environment for business and investment. There are still challenges in implementation to realise the expected results.

4.6.2   Challenges Facing SMEs In Tanzania

Despite efforts done by the government to support SME sector in the country, there are several challenges that need to be addressed if the sector is to contribute more in economic development. Below are some of the challenges confronting the SME sector in Tanzania.

- Inadequate entrepreneurial skills and knowledge such as creativity and innovation (low technological capability) among entrepreneurs in SMEs.

- Due to inadequate entrepreneurial knowledge and skills, entrepreneurs in SMEs are not competitive enough to face competition posed by rivals in the dynamic business environment we are today.

- Uncoordinated business support services and institutions responsible for SME support in the country.

- Lack of accessibility to credit among entrepreneurs in SMEs is a major constraint hindering the development of SMEs in Tanzania

- Much as it is acknowledged that the current regulatory environment is difficult for medium and large scale formal sector firms, it is largely inappropriate and irrelevant to micro and small scale businesses.

4.7 CHAPTER SUMMARY

This chapter presented the socio-political and economic changes that took place in Tanzania before and after independence and their implication in the development of SME and entrepreneurship. Drawing from the background information, it is clear that Tanzania has gone through a number of socio-political and economic transformations that have impacted entrepreneurship and small business development. The development presented in basically three major phases: pre-colonial regime, colonial regime, and after independence.

The pre-colonial regime represents a period before penetration of foreign nations to colonize Tanganyika. At this period, although there were entrepreneurial initiatives such as cottage industries and butter trade activities taking place in different socio-political settings, all the socio-political and economic decisions were done by the ruling class and the ruled class had no opportunity to practice decision-making which is crucial in entrepreneurship development. Also the dominant mode of production was communal that put emphasis on collective labour and common ownership of means of production that determine the collective appropriation of products. Individuals were not allowed to accumulate wealth and whoever was perceived

becoming socially and economically powerful, was eliminated. This culture stunted the entrepreneurial spirit and created dependence syndrome amongst community members.

The colonial regime introduced laws, regulations and policies aimed at making the colony a producer of raw materials for use in the industrial countries and the potential market of finished goods from industrialised countries. The import of finished goods from industrialised countries frustrated the cottage industries developed during the pre-colonial era and this killed the spirit of creativity and innovation which are pillars of entrepreneurship development. They also introduced cash economy coupled with a series of taxes such as development levies paid by individuals and they introduced money as a dominant mode of exchange. The introduction of money as a medium of exchange destroyed the existed mode of exchange, namely the butter system, which involved the exchange of goods for goods. This was done purposely to create demands for money for people to be able to meet the cost of living as well as servicing taxes. The restriction of colonial policies for indigenous Africans to participate in business activities coupled with the discriminatory education system that prepared them to be able to receive instructions from the ruling class left indigenous Africans with no choice than seeking casual employment in estate farms and mining where they were engaged as cheap labourers. This strategy impacted entrepreneurship development in all aspects in terms of knowledge, legal and capacity to generate enough savings to accumulate wealth.

Since independence the government has taken several socio-political and economic transformations in the effort to empower the Tanzanian citizen. The initial period is between 1961 to the mid-1980's when the government followed the *"ujamaa"* policy or African socialism that focused on self-reliance, and fight against three enemies; poverty, diseases and ignorance. However, while fighting against poverty was the central agenda, the *"ujamaa"* policy failed to recognize the role of the private sector as an incubator of entrepreneurship and a driver of economic growth. In 1967, the government nationalised most of private businesses such as banks, insurance companies, plantations, manufacturing, transport, hospitals and schools. It was at this time the government discouraged the private businesses on expense of the

state-owned enterprises and introduced a code of ethics for the public officials that restricted them to engage in any business or own/share in any company, this shuttered all possibilities for the entrepreneurship development.

Despite these initiatives taken by the government to establish NSIC in 1967 and then succeeded by SIDO in 1973, with the intention to establish small industries clusters, essentially for training, production, workshops were to provide knowledge and skills to nascent entrepreneurs. This stimulated entrepreneurship development because the private sector which could better utilise the entrepreneurial knowledge and skill, did not exist due to the existing policy environment. The nascent entrepreneurs were expected to apply knowledge and skills gained in communal-owned businesses and/or projects of which in most cases were not well developed due to lack of necessary business supports. However, during the period between the early 1970's and the early 1980's the government stumbled in a series of economic misfortune such as an oil crisis in 1973, consecutive droughts in 1974 and 1975, the collapse of East African Community in 1977, and the war between Uganda and Tanzania in 1978 to 1979. These events created saviour social and economic pressure that resulted into the emergence of the second economy to fill the gap left by the formal economy.

The second economy contravened the *"ujamaa"* policy that promoted equity amongst citizens. For this reason it received strong resistance from the state and the general community. While there were some good entrepreneurship elements in the second economy, the government failed to do thorough analysis and identify good elements that required support. On the contrary all participants were labelled "economic saboteurs". By the early 1980's, the economic crisis reached the highest stage and was reflected in every sector of the economy. There were saviour shortages of consumer goods, continuous increase of inflation and deterioration of the social services. It was during the mid-1980's the government adopted a structural adjustment guided by the IMF and WB that lead to the privatization of the state-owned enterprises (SOEs). For the first time in history, the government recognised the role of the sector as the driver of economic growth and remained creating an enabling environment.

The effective privatisation of state-owned enterprises began in 1996, after the completion of the structural adjustment. The period between 1992 and 2004 recorded positive economic growth, the GDP grew from 3.2% to 6.7% and the inflation declined from 35.5% to 4.2%. However, these changes in economic growth were accounted for by the large businesses and the role of SME was still marginalised. It was until 2003 when the government formulated the SME policy and in 2006 the government started implementing the broad based economic empowerment program preceded by the formulation of the National Economic Empowerment Policy, National Economic Empowerment Act No. 16 of 2004, and the establishment of the National Economic Empowerment Council. Despite of these efforts, there are still outcries of several challenges experienced before, which are still persisting. One of explanations of this might be the poor coordination of supporting institutions aimed to support SMEs in the country.

The next chapter presents the research methodology showing the research design and sampling procedure used to capture data and the statistical techniques used for data analysis.

CHAPTER LAYOUT - CHAPTER FIVE

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5.1    INTRODUCTION

5.1.1  Motivation behind this study

5.1.2  Research objectives

5.1.3  Proposition and hypotheses

5.2    Constructs used in this study

5.3    Research design and sampling procedure

5.3.1  Research design

5.3.2  Sampling procedure

5.4    Data collection

5.5    Measurements

5.5.1  Measurement of Strategic entrepreneurial response

5.5.2  Measurement of performance

5.5.3  Measurement of control variables

5.6    Integrity of the research

5.6.1  Reliability of measurement instrument

5.6.2  Validity of the measurement instrument

5.6.3  Practicality of the measurement instrument

5.7    Structure of questionnaire

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5.8    Data analysis

5.8.1  Descriptive statistics

5.8.2  Inferential statistics

5.8.3  Assumptions of regression

5.9    Hypotheses testing

5.10   Chapter summary
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CHAPTER FIVE

5 RESEARCH METHODOLOGY

5.1 INTRODUCTION

This chapter briefly presents research methodology used in this study. It highlights the motivation behind the research at hand, and the objectives of the study that indicate what this study intend to achieve. It presents the research questions and hypotheses governing this study, as well as the research design and sampling procedure followed to obtain the sample unit. It also indicates how the measurement of constructs and the dimensions of strategic entrepreneurial response were accomplished to capture the data required to address research questions and the advanced hypotheses. Finally, it ends by showing the procedures that were followed for data collection, analysis and presentation of the results to the intended audience.

5.1.1 Motivation Behind This Study

In view of the background information in Chapter 1, and the literature review in Chapter 2 and 3, it is clear that there is a conceptual gap in terms of constructs, previously identified to enhance simultaneous opportunity seeking and advantage seeking behaviors and subsequently to attain firm's performance. However, this study identified market orientation, entrepreneurial orientation and networking capability to fill this gap. Since dimensions of market orientation, entrepreneurial orientation and networking capability used for the first time to measure SER, this raised the following questions:

- Does collectively, the individual dimensions of market orientation, entrepreneurial orientation and networking capability measure strategic entrepreneurial response (SER)?

- Is there any relationship between individual dimensions of SER and SME performance? If yes, does the composite dimensions of SER presents similar nature of relationship with SME performance?

- How much variance in SME performance is explained by scores of the composite dimensions of SER?

- Is there a relationship among the composite dimensions of SER? And whether the interactions of the composite dimensions of SER explain a significant amount of variance in SME performance?

- If the demographic variables such as firm size, type of industry, and level of education of the owners/managers are controlled, is the three composite dimensions of SER namely market orientation, entrepreneurial orientation, and networking capability still able to explain a significant amount of variance in SME performance?

- Which is the best predictor to explain SME performance among the three composite dimensions of SER namely market orientation, entrepreneurial orientation, or networking capability?

These questions warrant further investigation to isolate factors enhancing simultaneous combining of opportunity seeking and advantage seeking behaviors that foster competitive advantage and SME performance.

5.1.2 Research Objectives

In light of the problem statement and research questions presented under section 5.1.1, the general objective of this study is to examine the role of dimensions of strategic entrepreneurial response to foster simultaneous opportunity-seeking and advantage-seeking behaviours to enhance SME performance.

Specifically this study intends to:

- Study the relationship between individual and composite dimensions of strategic entrepreneurial response and SME performance.

- Examine the amount of variance explained in SME performance by the composite dimensions of the strategic entrepreneurial response.

- Study the interaction of composite dimensions of the strategic entrepreneurial response.

- Examine the amount of variance explained in SME performance by the interaction of composite dimensions of the strategic entrepreneurial response.

- Study the influence of the demographical variables such as firm size, type of industry, and level of education of owners/managers on the contribution of the composite dimensions of the SER in SME performance.

- Identify the best predictor that explains more variance in SME performance.

5.1.3 Proposition And Hypotheses

Zikmund (2003:99) define hypothesis as a proposition formulated for empirical testing. In other words, hypothesis is a statement that describes the relationship between two or more variables that can be subjected under empirical test. This implies that hypothesis is formulated to give boundaries and guide the direction of the study, identifies facts that are relevant and those that are not, it gives clues of which form of research design is likely to be most appropriate and it provides a framework for organizing the conclusions that result from the findings (Cooper& Schindler, 2011:64).

Basically, in statistical hypothesis testing, two hypotheses are compared, which are the null hypothesis and an alternative hypothesis (Tabachnick & Fidell, 2007:34). The null hypothesis is the hypothesis which states that there is no difference between groups or no relationship between the phenomena whose relation is under investigation. An alternative hypothesis on the other hand, is the opposite of the null hypothesis; it states that there is a difference between groups or some kind of relation between the phenomena whose relation is under investigation (Field, 2009:27; Wilson, 2010:48). The hypotheses may take several forms, depending on the nature of the hypothesized relation; in particular, it can be two-sided (for example there is some effect, in yet no direction) or one-sided (there is a direction of the hypothesized relation, positive or negative is fixed in advance) (Field, 2009:27). In view of what is elaborated in this section the subsequent section presents a set of

hypotheses guiding this study of which will provide a framework for organizing conclusion from the results of this study.

5.1.3.1   Proposition for measurement of strategic entrepreneurial response.

> *P1*   *Collective dimensions of market orientation, entrepreneurial orientation, and networking capability measure strategic entrepreneurial response (SER).*

5.1.3.2   Hypothesis 1: Relationship between individual dimensions of SER and SME performance.

> *Ho1(a)*   *The customer orientation is not related to SME performance (Ha1(a): is related).*

> *Ho1(b)*   *The competitor orientation is not related to SME performance (Ha1(b): is related)*

> *Ho1(c)*   *The pro-activeness is not related to SME performance (Ha1(c): is related).*

> *Ho1(d)*   *The risk taking is not related to SME performance (Ha1(d): is related).*

> *Ho1(e)*   *The competitive aggressiveness is not related to SME performance (Ha1(e): is related).*

> *Ho1(f)*   *The relational skills is not related to SME performance (Ha1(f): is related).*

> *Ho1(g)*   *The internal communication is not related to SME performance (Ha1(g): is related),*

> *Ho1(h)*   *The coordination is not related to SME performance (Ha1(h): is related),*

Ho1(i)   The partner's knowledge is not related to SME performance (Ha1(i): is related).

5.1.3.3   Hypothesis 2: relationship between composite dimensions of SER and SME performance

Ho2(a)   The market orientation is not related to SME performance (Ha2(a): is related).

Ho2(b)   The entrepreneurial orientation is not related to SME performance (Ha2(b): is related).

Ho2(c)   The networking capability is not related to SME performance (Ha2(c): is related).

5.1.3.4   Hypothesis 3: Amount of variance explained in SME performance by the composite dimension of SER

Ho3(a)   The market orientation does not account for a significant amount of variance in SME performance (Ha3(a): account for a significant amount of variance).

Ho3(b)   The entrepreneurial orientation does not account for a significant amount of variance in SME performance (Ha3(b): account for a significant amount of variance).

Ho3(c)   The networking capability does not account for a significant amount of variance in SME performance (Ha3(c): account for a significant amount of variance).

5.1.3.5   Hypothesis 4: Amount of variance explained in SME performance by the interaction of composite dimension of SER.

Ho4(a)   The interaction of market orientation and entrepreneurial orientation does not account for a significant amount of variance in SME performance (Ha4(a): account for a significant amount of variance).

Ho4(b)   *The interactions of market orientation, entrepreneurial orientation and networking capability does not account for a significant amount of variance in SME performance (Ha4(b): account for a significant amount of variance).*

5.1.3.6   Hypothesis 5: Controls the effects/influence of the demographic variables.

Ho5a   *The firm size has no influence on the amount of variance explained in SME performance by the collective dimensions of SER (Ha5(a): has an influence).*

Ho5b   *The type of industry has no influence on the amount of variance explained in SME performance by the collective dimensions of SER (Ha5(b): has an influence).*

Ho5c   *The level of education of owners / managers has no influence on the amount of variance explained in SME performance by the collective dimensions of SER (Ha5(c): has an influence).*

5.2   CONSTRUCTS USED IN THE STUDY

When a set of hypotheses are grouped together they become a type of conceptual framework that represent the relationships amongst variables under investigation. On the other hand, a group of related variables or concepts together form a construct. The social science research describes a construct as an image or idea specifically invented for a given research and/or theory building (Cooper & Schindler, 2011:55). The constructs are built by combining simple concepts, especially when the idea or image intended to be conveyed, is not subject to direct observation.

Figure 5.1 presents a conceptual framework that indicates a summary of constructs and variables examined in this study.
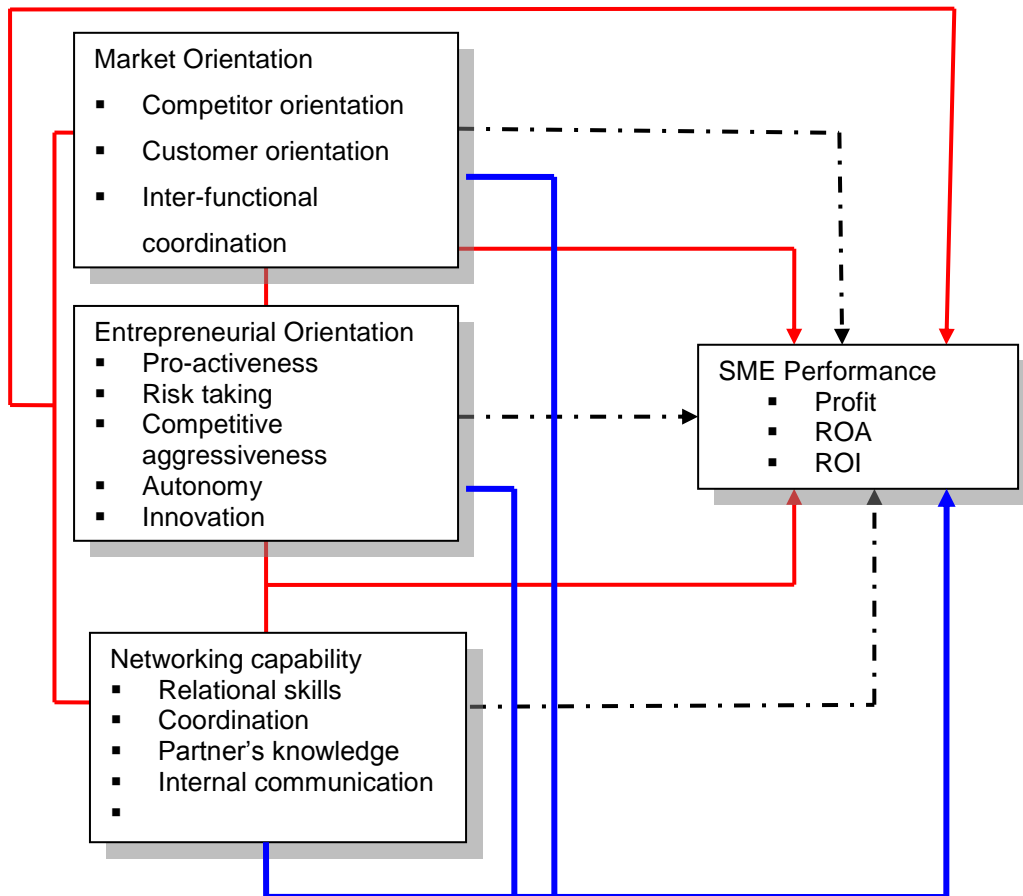
Figure 5.1:   Independent and dependent variables investigated in this study
(Source: Own compilation)

The specific construct investigated in this study is the strategic entrepreneurial response (SER) that is composite of three concepts namely; market orientation, entrepreneurial orientation, and networking capability, which are related to SME performance. The description of a construct and concepts are given below;

▪ Strategic entrepreneurial response

The strategic entrepreneurial response built with three concepts namely; market orientation, entrepreneurial orientation, and networking capability.

▪ Market orientation

The market orientation has three dimensions namely; customer orientation, competitor orientation and inter-functional coordination.

- Entrepreneurial orientation

  The entrepreneurial orientation has five dimensions namely; pro-activeness, risk taking, competitive aggressiveness, innovation and autonomy.

- Networking capability

  Networking capability has four dimension; relational skills, coordination, partner knowledge and internal communication.

5.3   RESEARCH DESIGN AND SAMPLING PROCEDURE

This section briefly presents the research design that provides the structure of investigation and forms the bases for data collection, measurement of constructs, and data analysis. The sampling procedure is highlighted to indicate how the representative sample of the study was obtained and used to generalize findings.

5.3.1 Research Design

There are many definitions of research design, but no one definition imparts the full range of important aspects (Cooper & Schindler, 2011:139). Despite of variations in definition there is a general consensus amongst the leading scholars that research design is concerned with producing a plan that guides the research process (Wilson, 2010:105). Blumberg *et al.* (2005) also highlighted the fact that an essential part of research desing is that of a time-based plan which constitute longitudinal and cross sectional research desing. Supporting this argument Wilson (2010:103) suggest six types of research designs, which include case study, experimental, archival, comperative, cross sectional, and longitudinal design. However, for convenience of time and resources this study adopted cross sectional research design that involved collection of data at one point in time.

5.3.1.1   Population

Defining a population is not always straightforward; it largely depends on the research questions and the context of the study. Wilson (2010:190) contends that definition of population should establish the types of cases that compose the

population of interest such as individuals, firms, households and the like. In this view, the population is a clearly defined group of research subjects that is being sampled, which implies the entire set of cases from which the sample is drawn. Consistently, Cooper and Schindler (2011:364) give a more comprehensive definition of the population and define population as "the total collection of elements, about which we wish to make some statistical inferences".

In this study, the population under investigation is all SMEs entrepreneurs in Tanzania. Referring to the working definition of SME as defined in Chapter 4 (Section 4.5.1), the study covered all categories of the SMEs i.e. micro-enterprises, small enterprises, and medium enterprises. In view of this, the population boundary is all the SMEs entrepreneurs in Tanzania with at least one worker and the owner/manager engaged in manufacturing/processing, services and retail sectors. However, the entire population size could not easily be determined due to informality of the SME sector in Tanzania and the lack of reliable records/database that could be used to source the information.

5.3.1.2 Sample frame

The literature shows that sampling frame is a reflection of population. It is a complete list of the population of interest in the study area. This is not necessarily the complete population of the country or area being studied, but is restricted to the eligible population. Cooper and Schindler (2011:372) noted that the sample frame is the list of cases from which the sample is actually drawn. In this case the sampling frame must be representative of the population in terms of the characteristics under investigation.

The sample frame for this study includes; SMEs owners/managers operating in three sectors of the economy namely manufacturing/processing, services and retail in three regions of Tanzania namely Dar es Salaam, Morogoro, and Iringa (Figure 4.1). The three sectors of economy were selected because they are amongst the few sectors facing much competition in Tanzania.

5. 3. 2   Sampling Procedure

Sampling is the part of statistical practice concerned with taking up a subset of cases from a chosen sample frame or entire population of individuals intended to yield some knowledge about the population of interest. Samples can be used to make inference about a population or to make generalisations in relation to existing theory (Tabachnick & Fidell, 2007:33). Different studies rarely survey the entire population for at least three reasons: the cost is too high, it is a time consuming exercise, and the dynamic nature of the population of which the individuals make up, may change over time (Wilson, 2010:193). Some of the clearly feasible advantages of sampling are lower cost, faster data collection, and since the data set is smaller, it is possible to ensure homogeneity and improve the accuracy of the data (Cooper and Schindler 2011:364).

There are several alternative procedures of taking a sample from a population or sample frame. Basically, the two broad types of sampling are the probability (random) and non-probability (non-random) sampling (Wilson, 2010:193). The probability sampling allows the employment of tests of statistical significances that permit inferences to be made about the population from which the sample was selected (Bryman & Bell, 2007:185; Tabachnick & Fidell, 2007:33). Moreover, the probability sampling means that every case in the population or in the sampling frame has an equal chance of being included in the sample and it has the greatest freedom from bias although it may represent the most costly sample in terms of time and energy for a given level of sampling error (Zikmund, 2003:71). There are several different types of probability sampling techniques such as simple randomly sampling, systematic sampling, stratified random sampling, cluster sampling and multi-stage sampling (Wilson, 2010:194). However, for the sake of this study stratified random sampling was used. The details of the procedure and the reasons for choosing it are described in the next section.

5.3.2.1   Stratified random sampling

The stratified random sampling is the probability sampling procedure that was used to draw a representative sample from a population (Bryman & Bell, 2007:187; Zikmund, 2003:386) of SMEs (i.e., less than 100 employees) in Tanzania. The technique was used to divide the population into strata (or subgroups) and a random sample was taken from each stratum. The stratified random sampling technique was used in this study because of the great variation within the population of interest. Wilson (2010:195) suggests that stratified random sampling are often used where there is a great deal of variation within a population and it is done to ensure that every stratum is adequately represented. In other words, the selected sectors of economy and the firm sizes that formed the bases for strata formation vary in terms of characteristics of interest such as performance. For this reason, it was reasonable to use this sampling technique to ensure adequate representation of each stratum or category of interest.

According to Cooper and Schindler, (2011:379) stratified sampling increases samples statistical efficiency; provide adequate data for analysis of various strata and enables different research methods and procedures to be used in different strata. In another incidence, stratified sampling is acknowledged for having smaller sampling errors than simple random sampling which is an important consideration when making inferences in relation to a wider population (Wilson, 2010: 196). These reasons altogether contributed to the choice of the sampling technique.

The population was divided into three strata based on the type of industry namely manufacturing/processing, services and retail followed by three sub strata of business size namely micro, small, and medium enterprises. Figure 5.2 presents the sample stratification plan/schedule of which each stratum elements are assumed to be homogeneous in terms of characteristics such as profit generated over time, return on asset, return on investment, sales growth and other entrepreneurial behaviour such as entrepreneurial orientation, market orientation, and networking capability. The plan was to apply the proportional sampling to compute a sample size for each stratum. However, it was not easy to determine the total number of each

business category in the study area due to the lack of proper records/database that could be used to compute the proportional sample to be drawn from each business category and subsequently in each of the three economic sectors, targeted by this study to make a total sample size required. In this case, the plan scheduled to sample equal proportional of sample size for each stratum as indicated in Figure 5.2 to arrive at 360 cases which is the required sample size for this study.
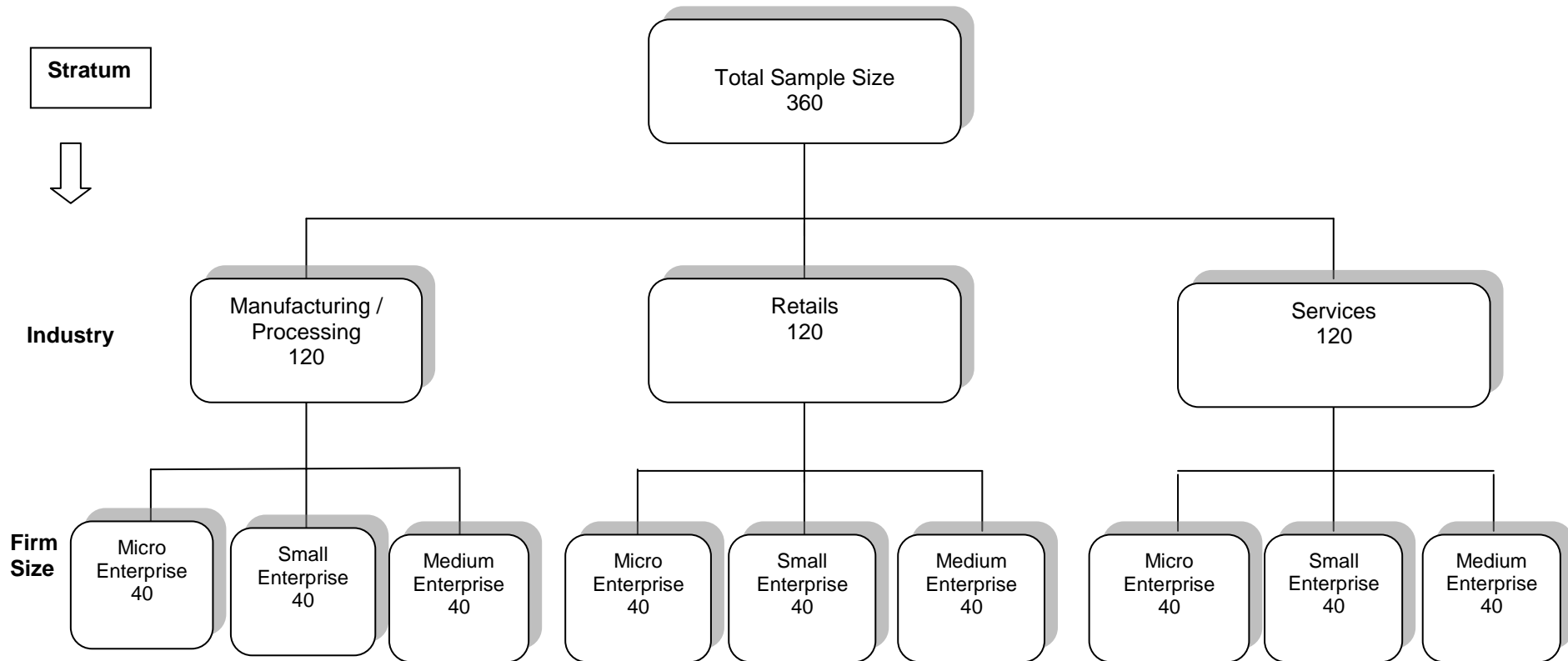
Figure 5.2:   Sample stratification plan/schedule

In Tanzania, like in many other countries, businesses are distinguished into formal and informal sectors of the economy; in this case, both categories are represented in this study. The criterion for formality and informality is based on whether the business is registered (formal) for tax purpose or not (informal) (Research ICT Africa, 2006:6). This is one of the same criterions used in other countries to categorise businesses in terms of formality (Bradford, 2007:108). Including informal (unregistered) businesses in the sample, it is common, as Watkins (2007:134) points out, that most of the studies surveyed sample of small businesses that consist of unregistered firms, implying that this group cannot be ignored in business interventions. Consistently, Bradford (2007:108) reported similar findings when studied business and owner traits that predict revenue and job creation amongst township entrepreneurs in South Africa. In his findings the author reported that informal firms which kept records, had higher average revenue than formal (registered) firms, which did not keep records. In regard to this, informal firms are important if they are considered in terms of improved livelihood and poverty alleviation, which is among objectives of supporting SMEs in Tanzania (Ministry of Industry and Trade, 2003:2).

5.3.2.2   Sample size

Different scholars indicate different procedures to determine sample size. Blumberg, Cooper and Schindler (2008:228) indicate that the sample size can be dictated by considering the cost implied to collect data, greater accuracy and the speed required for data collection. However, Sekaran (1992:250) argues that the sample size is governed by the extent of precision and confidence desired, but concludes that the eventual choice is usually a trade-off between confidence and precision. This view-point is supported by Cooper and Schindler (2011:374) who recommend that since researchers can never be 100 percent certain that a sample reflects its population; they must decide how much precision they need and in making this decision, they must consider at least four factors, namely:

- The confidence needed in data

- The margin of error that can be tolerated

- The types of analysis to be performed

- The level of variability in the population on the characteristic of interest.

Considering the above-mentioned factors including the cost element, difficult to determine population size in the study area, and the envisaged number of questions, a total of 360 respondents were interviewed from three sectors of the economy namely; manufacturing/processing, services, and retailers. The selection of these sectors was based on the reality that these are amongst the sectors facing much competition compared to other sectors in the study area.

5.4   DATA COLLECTION

A survey method was used for data collection as indicated before, with structured questionnaires which involved personal interview with SME's owners or managers to ensure high response rate. The business owners/managers were targeted in this study due to the nature of businesses under study where most of the day to day decisions are centralized to the owners/managers of the firms. It was believed that the respondents gave reliable information to satisfy the requirement of the study.

The study selected a sample to represent a population of interest. The reason being to save cost, increase accuracy of the results and speed up the exercise of data collection (Wilson, 2010:193). This is in line with the argument posed by Blumberg *et al.* (2008:228) that the quality of a study is often better with sampling than with a census. The argument is based on the fact that sampling ensures possibility of better interviewing (testing), thorough investigation of missing, wrong, or suspicious information, better supervision, and better data processing than is possible with complete coverage of the entire population. Coupled with the reliability and validity of the measurement tools, it is likely to ensure quality data. However, the reliability and validity of the measurement tool is subject to several factors. The measurement scale used for each constructs and how the assessment for the validity and reliability of the measurement scale applied in this study, are briefly explained in the subsequent sections.

5.5   MEASUREMENTS

Measurement in research consists of assigning numbers to empirical objects or events in compliance with set rules (Blumberg *et al.,* 2008:438). Most constructs in this study measured by the existing measurements, which consist of a large number of items to ensure reliability and validity (Li *et al.*, 2008:121; Verhees & Meulenberg, 2004:143).

However, to maintain quality of data and minimize heavy load on respondents, a pre-test was performed to refine the measurement instrument where some measurement questions were refined and some were removed, to improve reliability of the questionnaire in order that it collects only the information intended for this study. Bryman and Bell (2007:159) and Zikmund (2003:294), all agree that a concept must be made operational in order to be measured. An operational definition gives meaning to a concept or construct by specifying the activities or operations necessary to measure it. The operational definition specifies what must be done to measure the concept under investigation. In this view, the variables under investigation were operationally defined.

5.5.1 Measurement of Strategic Entrepreneurial Response

As described earlier in Chapter 3, the concept of strategic entrepreneurial response in this study is developed based on the interaction of SMEs and the environment in which they operate and the way they respond to adapt changes taking place in the environment. The conceptual definition of the SER is defined as a set of actions, measures or posture taken by the entrepreneur to respond through simultaneous opportunity sekkingand advantage seeking behaviours to cope with the changes in customer behavior, technology, competitor's actions, and changes in legal, regulatory, and ethical standards to attain performance. In a competitive business environment, entrepreneurs' survival depends mostly on how they respond to these forces. When confronted by the market competition explained by the environmental forces, entrepreneurs are likely to adopt entrepreneurial strategies such as market orientation and entrepreneurial orientation. The response in most cases, will involve a combination of strategies to ensure simultaneous opportunity seekingand advantage seeking behaviours to cope with environmental changes. The combination of strategies is determined by the circumstances such as availability and accessibility to resources, convenience of implementation and the capacity in terms of infrastructure and technical knowhow.

The implementation of the two strategies outlined earlier (i.e., market orientation and entrepreneurial orientation) requires resources. Unfortunately, SMEs are usually confronted by the shortage of resources (Kropp & Zolin, 2005:1; Verhees & Meulenberg, 2004:137). In this case, networking strategy is considered a viable strategy and it is added in this study. The networking for SMEs is considered appropriate because it enables them to access strategic information, resources, and other capabilities from other firms, which

subsequently give SMEs competitive advantage over the rivals (George *et al.*, 2001:269; Walter *et al.*, 2006:548; Watson, 2007:854). Collectively, the three strategies mentioned before in this study are conceptualized as the dimensions of the strategic entrepreneurial response over rivals that give enterprises the ability to attain or maintain superior performance over competitors. Figure 5.3 presents a summary of conceptual relationship of constructs under investigation.
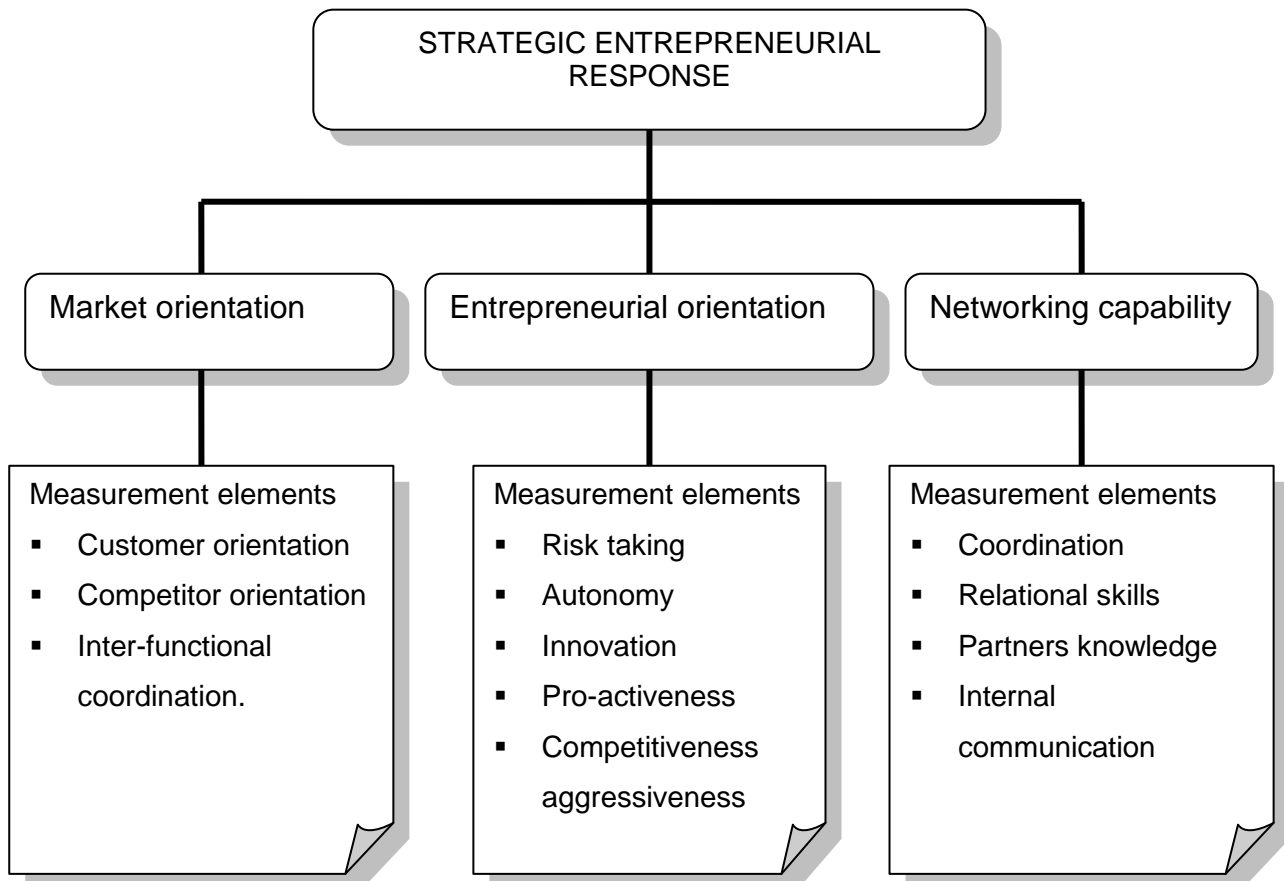
Figure 5.3:   Conceptual relationship of concepts and dimensions of the SER under investigation.

(Source: own compilation).

The summary of constructs summarised in Figure 5.3 indicates that the strategic entrepreneurial response is conceptually made up of three dimensions namely market orientation, entrepreneurial orientation, and networking. Subsequently, each dimension has several measurement items or elements which are used to measure it. In view of this, market orientation has three measurement elements, namely: customer orientation, competitor orientation and inter-functional coordination (Narver & Slater, 1990:21). The entrepreneurial orientation has five measurement elements, namely: risk taking, autonomy, innovation, pro-activeness and competitive aggressiveness. (Lumpkin & Dess,

1996:137; Lumpkin & Dess, 2001:431; Walter *et al.,* 2006:557). Networking capability has four measurement elements, namely: coordination, relational skills, partner's knowledge and internal communication (Kale *et al.,* 2000:221). The details of each dimension and how it was measured, is given in the subsequent sections.

5.5.1.1 Measurement of market orientation

Several scholars who study market orientation either adopt framework of Kohli and Jaworski (1990:7) or of Narver and Slater (1990:29) studied in the early and late 1990s', respectively. The former framework is behavioural in nature and describes market orientation in terms of specific behaviours related to intelligence generation, dissemination of intelligence, and responsiveness to intelligence (Kohli & Jaworski, 1990:3). On the other hand, the latter is cultural oriented, focused on customers, competitors, and coordination (Narver & Slater, 1990:21). The two frameworks have much in common with regard to the focus on customers, functional integration and market opportunities. This argument is consistent with the observation made by other scholars who observed that measures of market orientation by the two frameworks are similar, because both are focused on information gathering in order to attain competitive advantage (Farrell, 2000:207). However, for the purpose of this research, Narver and Slater, (1990)'s framework is adopted because it is much more relevant to the nature and design of this study.

The measurement of market orientation used multi-items measures, adopted from Li *et al.,* (2008:122), which were derived from Narver and Slater's (1990:26) framework. Specifically measurement items included are customer orientation, competitor orientation, and inter-functional coordination (See Figure 5.3). Bryman and Bell (2007:159) contend that in order to measure a concept, it is necessary to have indicator or indicators that will capture the image of the concept. The authors indicate that there are a number of ways in which indicators can be devised, among those include a series of questions connected to the respondents' report of an attitude.

In view of the above, all concepts in this study were measured using a series of measurement questions that formed part of questionnaire used during the structured interview. The measurement questions were connected to the respondents' report of an attitude toward a specific item in question. From this context, customer orientation was

measured using six questions, competitors' orientation was measured by four questions, and finally, the inter-functional coordination was measured by five questions. Although Li *et al.* (2008:122) used a seven point Likert scale; this study adopted a five point Likert scale, which has proved useful in other studies to measure different variables relating to market orientation. A scale ranging from 1 to 5 with a score of 1= strongly disagree to 5 = strongly agree was used.

5.7.1.2   Measurement of entrepreneurial orientation

Previous studies on entrepreneurial orientation adopted measures developed by Covin and Slevin (1989:79) focused on innovation, pro-activeness and risk taking, which is an adaptation of Khandwalla's (1976/1977) and Miller's and Friesen's (1982) works. Consistently, Lumpkin and Dess (1996:140) clarifying the entrepreneurial orientation construct identified five dimensions defining the construct namely; autonomy, innovativeness, risk-taking, pro-activeness, and competitive aggressiveness. In view of this, it is clear that Covin and Slevin (1989:79) treated pro-activeness and competitive aggressiveness as identical dimensions contrary to Lumpkin and Dess (2001:441) who reported to be two distinct dimensions.

Drawing from previous studies several scholars have developed measures of the entrepreneurial orientation construct (Krauss *et al.,* 2005:326; Le Roux, Pretorius & Millard, 2004:42; Lumpkin & Dess, 2001:434). However, Kraus *et al.* (2005:318) conceptualized entrepreneurial orientation construct by adding two more dimensions namely; learning orientation and achievement orientation from previous dimensions identified by Lumpkin and Dess (1996); Khandwalla (1976/1977); and Miller and Friesen (1982). The two dimensions were added to capture the full spectrum of the entrepreneurial tasks as described by Schumpeter.

The variation in numbers of dimensions of entrepreneurial orientation identified by different scholars has influenced the selection of dimensions of entrepreneurial orientation employed in various studies to examine the relationship with performance. For example some scholars have opted to use only three dimensions identified earlier by Khandwalla (1976/1977) and Miller and Friesen (1982) namely; innovation, risk taking and pro-activeness (Green, Covin & Slevin, 2008:364). Other scholars have used five dimensions

proposed by Lumpkin and Dess (1996:137) namely autonomy, risk taking, innovativeness, pro-activeness, and competitive aggressiveness with some studies failing to measure all five dimensions of entrepreneurial orientation, ending up measuring only two dimensions namely; innovativeness and risk taking (Le Roux *et al.*, 2004:43). Also some studies have used seven dimensions that include leaning orientation, achievement orientation, autonomy, risk taking, innovation, pro-activeness, and competitive aggressiveness (Krauss *et al.*, 2005:318).

All the same, use of measures of dimensions of entrepreneurial orientation in relation to performance in all the mentioned studies has not been consistent. For the sake of this study five dimensions of entrepreneurial orientation proposed by Lumpkin and Dess (1996:137) namely; autonomy, risk taking, innovation, pro-activeness, and competitive aggressiveness were adopted. These dimensions were considered more appropriate for the nature of the study and the environment in which the research was conducted. The dimension used multi-item measures derived from Covin and Slevin (1989:79), and Lumpkin and Dess (1996:140). Five point Likert scales were used to measure different variables relating to entrepreneurial orientation. Respondents were asked to rate extent of agreement about how well each of the presented statement is an accurate description of their firms in terms of entrepreneurial orientation. A scale ranging from 1 to 5 with a score of 1= strongly disagree to 5= strongly agree was used.

5.5.1.3   Measurement of networking capability

Networking is a general term that can easily be misconceived to mean different things. To avoid confusion that can result in misinterpretation of the term, this study adopt previous definition of networking meaning "the process of developing contacts (with professional and trade associations, community and local clubs, customers, competitors, civic and government bodies) that would help in the development of business" (George *et al.,* 2001:275). In view of the fact that benefits of networking are questionable, this study deceided to focus on networking capability rather than networking parse. The selection of networking capability is based on the fact that networking capability considers a firm's abilities to initiate, maintain and utilise relationships with various external partners (Walter *et al.*, 2006:546). Furthermore, networking capability is a higher order construct that increases in magnitude as each of the four measurement items namely; coordination activities, relations skills, partner knowledge, and internal communication increases. These

items are viewed as integral parts of the networking capability construct as suggested by various scholars (Keller & Holland, 1975:389; Mohr & Spekman, 1994:138).

This study adopted four measures of networking capability developed by Walter *et al.* (2006:552), which were derived from (Keller & Holland, 1975:389; Mohr & Spekman, 1994:138) namely; coordination of business activities and resources, relational skills, partner knowledge, and internal communication. The coordination activities used six items' measurement, which assessed synchronization, planning and controlling activities in both within and beyond a firm's boundaries. The relational skills used four items' measures to evaluate the degree in which networking partners are able to nurture and shape close relationships. Partner's specific knowledge used four item measures to capture the information which demonstrate the extent to which the networking partner understands the potentials and constraints of the second party. Internal communication applied five item measures that show how the acquired information is dissemination within the firm. The business owners/managers were asked to rate the extent of their firm's compliance to a given statement based on the measurement items. Although the original study used a seven point Likert scale, this study used 5 point Likert scale ranging from 1= strongly disagree to 5 = strongly agree.

5.5.2   Measurement Of Performance

The multi-dimensional nature of a firm's performance suggests integration of different dimensions of performance in empirical studies (Walter *et al.*, 2006:553; Wolff & Pett, 2006:275). To capture different aspects of SME performance, this study used objective measures of performance, capitalized on the financial performance and growth.

Growth was measured in terms of average number of full-time permanent employees and sales growth for the past three years. On financial performance this study used return on assets, return on investment, and profit. Due to reluctance of SMEs to give financial information, indirect questions were asked to respondents such as average total costs, average total sales or income, investment costs, and average total asset values. The answers provided were used as inputs for computation of the performance measures namely profits, return on asset (ROA), and return on investment (ROI) using the equations 5.1, 5.2, and 5.3, respectively.

$$Profit = (Average\ Total\ Sales) - (Average\ Total\ Costs)\ldots\ldots\ldots\ldots(Equation 5.1)$$

$$ROA = \frac{Net\ Income}{Average\ Total\ Assets}\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots(Equation\ 5.2)$$

$$ROI = \frac{Gain\ from\ Investment - Cost\ of\ Investment}{Cost\ of\ Investment}\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots(Equation\ 5.3)$$

5.5.3 Measurement Of Control Variables

Different types of industries, the business size, age of the firm, level of education of owner/manager, gender and age of owners/managers, may exhibit different organizational and environmental characteristics, which in turn may influence performance (Tang & Hull, 2012:142; Tang & Murphy, 2012:49). Therefore, these variables were included as controls. To determine the type of industry, respondents were asked if the firm's main line of business is manufacturing/processing, service, or retailing. Respondents were further asked the date or year in which the firm was established and subsequently the age of each firm was computed to establish the exact age of each firm during the survey. The respondents were finally asked the level of education of the owner/manager responsible for day to day decision making and the number of individuals employed on a permanent basis by the firm at the time of survey, including working owners. The scale for this measure employed four point Likert scale of 1= 1-4 employees, 2= 5-49 employees, 3= 50-99 employees, and 4= more than 100 employees. This variable was expected to be used to categorize business sizes in the study area. However, due to overlaps of the business categorization criteria, the investment cost, which is the dominant criteria, applied.

The use of investment cost as a dominant business categorization is in line with the Tanzania business categorization which clearly indicates that in case of overlaps of business categorization criteria the dominant criteria which are the total investment cost, applies (Ministry of Industry and Trade, 2003:3). In this regard, SMEs were categorized based on the total investment made by each firm and not the number of full-time employees. According to the Ministry of Industry and Trade in Tanzania, the categorization with the capital investment in brackets is as follows; micro enterprises (TAS 0 - 5,000,000), small enterprises (TAS 5,000,000 – 200,000,000), medium enterprises (TAS 200,000,000 – 800,000,000) and large enterprises (above TAS 800,000,000).

5.6 INTEGRITY OF RESEARCH

Supporting all research undertakings is a question of credibility. In this view, the researcher is responsible to ensure that conclusions drawn from the study can stand out and be trusted by the research community. Wilson (2010:116) pointed out that without addressing the issues of reliability and validity, the research is unlikely to carry much credibility. Consistent to this argument, researchers seem to agree that there are three criteria for evaluating a good measurement tool; reliability, validity and practicality (Wilson, 2010:116; Bryman and Bell, 2007:58; Zikmund, 2003:300; Cooper & Schindler, 2011:280). In this context the subsequent section sets out to discuss the three main issues that impinge on the quality of this study.

5.6.1 Reliability Of The Measurement Instrument

Reliability concerns the extent to which a measurement of a phenomenon provides stable and consistent results (Wilson, 2010:116). On the other hand, reliability is simply defined as the degree to which measures are free from errors and therefore yield consistent results (Zikmund, 2003:300). Moreover, reliability is a necessary contributor to validity, but is not a sufficient condition for validity. Researchers tend to agree that two dimensions underlie the concept of reliability: the repeatability and internal consistence (Cooper & Schindler, 2011:283; Zikmund, 2003:300). From this context the next section describes the procedure followed to address the issues of reliability in order to ensure quality research output.

5.6.1.1 Repeatability

In social science research, the repeatability, or sometimes referred to as the test-retest method in determining reliability, involves administering the measure to the same respondent at two different occasions to test for stability of the measurement tool (Zikmund, 2003). If the measure is stable over time the test administered under the same conditions each time, should obtain similar results. However, this procedure of reliability test is much more relevant to the longitudinal research design that requires researchers to collect data on the same respondent under the same conditions more that once Wilson, 2010:116). In this context, tests of the reliability through repeatability method was considered irrelevant in this study, since it adopted a cross sectional research design that collects data at one point in time. Instead the pre-test of the measurement

instrument/questionnaire was performed to refine ambiguous questions. This was done to ensure the stability of the measurement instrument to be able to provide consistent results.

5.6.1.2 Internal reliability

To measure internal consistence (Internal reliability) of a multiple–item measures, scores on subsets of the items within the scale are correlated. Cooper and Schindler (2011:285) identify several techniques used to test internal consistence such as split-half technique, Spearman-Brown correction formula, Kuder-Richardson Formula 20 (KR20) and Cronbach's coefficient alpha. However, Cronbach's alpha is a commonly used test for internal reliability (Bryman and Bell, 2007:164). It essentially calculates the average of all possible split–half reliability co-efficients. A computed alpha co-efficient varies between 1 (denoting perfect internal reliability) and 0 (denoting no internal reliability). The Cronbach's value of 0.80 is typically employed as a rule of thumb to denote an acceptable level of internal reliability, though several researchers accept a slightly lower figure as low as 0.6 that is considered to be sufficient, Kline (1999) cited in Field (2009:675). In this case, the same procedure applied in this study to test the internal reliability. The formula used to compute Cronbach's alpha (α) adapted from Field (2009:674) is given in equation 5.4.

$$\alpha = \frac{N^2 \overline{Cov}}{\sum S^2_{item} \pm \sum Cov_{item}} \text{...}(Equation\ 5.4)$$

Where: N^2 = square multiple of the number of items

$\overline{Cov}$ = average covariance between items

$\sum S^2_{item}$ = sum of all item variances

$\sum Cov_{item}$ = sum of all item covariances

5.6.2 Validity Of The Measurement Instrument

Validity, in simple terms, refers to the degree in which a measurement tool accurately reflects or assesses the specific concept that the researcher is attempting to measure, which is usually not simple in a practical sense. While reliability is concerned with the accuracy of the actual measurement instrument or procedure, validity is concerned with the study's success at measuring what researchers set out to measure (Cooper & Schindler, 2011:281; Zikmund, 2003:301) and this is the purpose of measurement. Widely

accepted classification of validity consists of three major forms: content validity, criterion-related validity, and construct validity. The next sections dwell on discussing the three forms of validity and how they were addressed in this study.

5.6.2.1   Content validity

The content validity, or sometimes referred to as face validity, is concerned with how well a measure or procedure appears to collect relevant information required to address the issues of the study. The focus is on how well the measurement instrument is designed in a reasonable way to capture the relevant information researchers are attempting to obtain. Cooper and Schindler (2011:281) put in a simple way that the content validity of the measurement instrument is the extent to which it provides adequate coverage of the investigative questions guiding the study.

In light of the above, the content validity for this study can be assured if the investigative questions in the measurement instrument (questionnaire) adequately cover the concept of strategic entrepreneurial response and its dimensions: market orientation, entrepreneurial orientation, and networking capability. This implies that the items describing the dimensions of the strategic entrepreneurial response really describe them.

According to Zikmund (2003:302), content validity is a subjective agreement among professionals that a measurement instrument logically appears to measure what it is supposed to measure. When it appears evident to experts that the measure provides adequate coverage of the concept, a measure has content validity. While Cooper and Schindler (2011:281) agree on the use of a panel of professionals to judge how well the instrument meets the standards, they provide another option for designer's judgment which can be accomplished through a careful definition of the topic of concern, the item to be scaled, and the scale to be used.

In this regard, this study combined both self-judgemental and professional's judgment. The professional judgment was based on the use of existing measurement tools as indicated earlier on the measurement of dimensions of the strategic entrepreneurial response namely: market orientation, entrepreneurial orientation and networking capability which have gone through a rigorous review and have been used successful in previous studies. On the other hand, the self-judgment was on considering market orientation,

entrepreneurial orientation and networking capability as collective measures of strategic entrepreneurial response. This argument implies that market orientation generate information that leads to identification of market opportunities through which entrepreneurial oriented firms respond to exploit these opportunities to fill market gaps through a series of innovation. In case of resource scarcity, entrepreneurial firms form networking to complement resources and capability needs.

5.6.2.2 Construct validity

According to Zikmund (2003:303) construct validity is established by the degree to which a measure confirms a network of related hypotheses generated from a theory based on a concept under investigation. Construct validity implies that the empirical evidence generated by a measure is consistent with the theoretical logic about the concept. Sekaran (1992:173) contend that construct validity testifies how well the results obtained from the use of the measures fit the theories around which the test is designed.

In view of the above, researchers took various efforts to ensure construct validity through: formulation of clear definition, research questions, and workable objectives of the study to ensure that measurement questions are reflecting research questions and objectives of the study so that the information collected answers the research questions and objectives of the study. As for measurement tools for the dimensions of the SER such as market orientation, entrepreneurial orientation and networking capability, the first and second order exploratory factor analysis were used to examine if the extracted factors converged to measure a single component .

5.6.3 Practicality Of The Measurement Instrument

The credibility of research requires quality data that call for the measurement process to be reliable and valid, at the same time the operational requirements call for it to be practical. According to Cooper and Schindler (2011;285) practicality is examined in term of economic considerations, convenience on use of the measurement instrument and the easy interpretation of the results. It is from this context this study addressed the three aspects of practicality to ensure quality and credible data.

5.6.3.1 Economic considerations

The length of the questionnaire is associated with the costs implied in the research, due to the time spent in the interview and or in an observation. However, there is always a trade-off between reliability and cost since more number of the measurement items gives high reliability. In this view, the economic consideration was addressed by limiting the number of items included in the questionnaire, while ensuring the reliability of the instrument. The measurement of the SER was measured by three dimensions namely market orientation, entrepreneurial orientation and networking capability. Each of these dimensions had a set of measurement elements as indicated earlier in Figure 5.3. The selection of the measurement questions was carefully done during the pretest to ensure that it includes a reasonable number of questions to keep the questionnaire short without jeopardizing the reliability of the measurement instrument.

5.6.3.2 Convenience of the measuring instrument

A measuring device passes the convenience test if it is easy to administer (Cooper & Schindler 2011:285). With this understanding, the questionnaire was simple in its design, used a Likert five point scale that made it simple for respondents to complete the measurement questions. However, the instructions and concepts used in the questionnaire were clarified beforehand and the enumerator was well-trained in advance to ensure correct translation to respondents throughout the data collection period.

5.6.3.3 Interpretability

Interpretability in practicality is applicable if a person other than the designer of the measurement instrument must interpret the result (Cooper & Schindler, 2011:286). In this study, the designer of the measurement instrument is responsible for the interpretation of the results.

5.7 STRUCTURE OF QUESTIONNAIRE

The questionnaire was designed with three main parts. The first part covered the biographical information, the second part the measurement questions on the SER and the last part focused on the measurement of the SME's performance, that were categorized into two major categories, namely: the objective and subjective measurement.

5.7.1 Biographical Information

The biographical information in this study is aimed at capturing information relating to gender, age and the level of education of the business owners/managers. Others were the year the company was established, meant to compute the age of the company in complete years, and the industrial sector that implied the main line of operation of the firm.

5.7.2 Items of Strategic Entrepreneurial Response (SER)

The SER measurement questions covered basically three dimensions; market orientation, entrepreneurial orientation, and networking capability. However, each of these dimensions had a set of measurement elements that subsequently formed the measurement questions. To avoid the problem of a respondent being caught in a groove of predicting the next question and create response bias, the measurement questions that appeared in the questionnaire, were mixed up.

5.7.3 Items of Performance Measures

The objective measures of performance involved questions which aided to compute employment growth for the past three years, wage bills for the past three years, sales growth for the past three years, profit growth, Return on Assets (ROA), and Return on Investment (ROI). During the subjective measures on SME performance, respondents were asked to respond on a set of questions, which were aimed at self rating on how they compared with their competitors on the three key areas namely: competitive advantage, market performance, and customer acceptance measures.

5.8 DATA ANALYSIS

The collected data were coded, cleaned and subjected to a series of statistical techniques to answer the advanced empirical research questions and the hypotheses governing this study. In this regard, the statistical analysis performed in this study were categorised into two major categories namely: descriptive statistics and inferential statistics. Details on how each of the procedures was accomplished are presented in the subsequent sections.

5.8.1 Descriptive Statistics

Descriptive statistics were the first statistical operation performed during the data analysis following the process of data cleaning. The objective was to describe the characteristics of a sample under investigation that subsequently be inferred to a larger population of interest. In light of this, the main statistical operations performed include frequency, mean and standard deviation of the following aspects, namely: gender, age and highest level of education amongst respondents. Others include industrial sector, age and the size of the firm distribution of business by region, total investment costs of firm, distribution of firms by size, reported employment growth, return on asset, return on investment and profit growth.

5.8.2 Inferential Statistics

In order to reach the conclusions that extend beyond the immediate sample, the inferential statistics were used in the data process. Inferential statistics are used to make an inference about a population from a sample (Tabachnick & Fidell, 2007:33; Meyers, Well, & Lorch, Jr, 2010:15; Zikmund, 2003:402). In this regard, the major statistical operations performed under inferential statistics, were the multivariate analysis such as the factor analysis, Analysis Of Variance (ANOVA), and the multiple regression analysis.

5.8.2.1 Factor analysis

The factor analysis was performed as a data reduction procedure to reduce the number of variable into a small number of factors which can easily be managed. There are mainly two major approaches which can be used for factor analysis. Such approaches are the exploratory and confirmatory factor analysis (Pallant, 2007:179). However, in this study, the exploratory factor analysis was considered appropriate to explore the relationship among a set of variables and reduced into few components/factors that can easily be managed for further analysis. This was followed by a second order factor analysis to confirm if the first order factors could converged to a single factor/component to measure strategic entrepreneurial response (Proposition 1).

1: Initial consideration for factor analysis

Before conducting factor analysis, two issues were considered in determining whether data were suitable for factor analysis; the sample size and the strength of correlation among variables were examined. Various authors point out that factor analysis varies with the sample size and the strength of inter-relationship among variables (Pallant, 2007:185; Field and Miles, 2010:559; Field, 2009:647) and that was the reason why these issues were examined before proceeding with the factor analysis.

2: Sample size suitable for factor analysis

The factor analysis relies on correlation co-efficients that fluctuate from sample to sample, much more so in small sample than in large. Therefore, the reliability of factor analysis is also depending on the sample size. Field (2009:645) reviews many suggestions about the sample size necessary for factor analysis and conclude that it depends on many things. In general over 300 cases is probably adequate but communalities after extraction should probably be above 0.5 (Field, 2009:647). Consistently, Tabachnick and Fidell, (2007:613) review this and suggests a similar number as a minimum number of cases for factor analysis. Pallant (2007:185) suggests a minimum number of 150+ cases and there should be a ratio of at least five cases for each of the variables. This study targeted 360 cases, however in the course of data entry 291 cases were found useful. With regard to the minimum number of cases, 150 plus suggested by Pallant (2007:185), by far the sample size involved in this study is adequate. The KMO measure of sampling adequacy was performed to confirm this argument (Kaiser, 1970:405; Kaiser, 1974:35).

3: Strength of correlation among variables

Factor analysis always finds a factor solution to a set of variables. However, the solution is unlikely to have any meaning if the variables analysed are not sensible. With this fact in mind, the analysis tested for inter-correlations between variables and picked variables with reasonable correlations with each other with an assumption that they measure the same underlying dimension and excluded variables with lots of correlations below 0.3 in the factor analysis. This is in line with the recommendations by other authors in previous studies that if a variable has lots of correlation with other variables below 0.3, it should be removed before running the factor analysis as part of the data cleaning process (Field,

2009:648; Field & Miles, 2010:566; Pallant, 2007:185). The correlations between variables were judged for this purpose through scanning the correlation matrix (R-Matrix).

5.8.2.2   Analysis of Variance (ANOVA)

Multi-way Analysis of Variance was performed to compare group means of the demographic variables, specifically the gender of respondents, age, level of education of owner/manager, age of business, and type of industry and determine if there is any significant difference in terms of the dimensions of market orientation, entrepreneurial orientation, and networking capability which subsequently have effects on SME performance. The intension was to isolate demographic variables with effects on the dimensions of market orientation, entrepreneurial orientation, and networking capability so as to control their effects in the relationship between the dimension of SER and SME performance and to be able to rule out the variance explained in SME performance by dimensions of SER, whether or not it is due to the influence of the demographic variables. However, with the understanding that ANOVA is the Omnibus test, which means it test for an overall effect, but it does not tell, which means amongst test groups it differs significantly, the results were subjected to the post hoc test specifically the Duncan's Multiple Range Test (DMRT) to isolates specific groups which are significant different at $p < 0.05$.

5.8.2.3   Multiple regression

The multiple regression analysis was performed for five purposes:

- To examine the relationship between individual and composite dimensions of SER and SME performance [hypotheses 1(a) – 1(i) and 2(a) – 2(c)].

- To determine the amount of variance explained in SME performance by scores of composite dimensions of SER [hypotheses 3(a) – 3(c)].

- To examine the amount of variance explained in SME performance by the interaction of composite dimensions of strategic entrepreneurial response (SER) [hypotheses 4(a) – 4(b)].

- To control the influence of demographic variables specifically firm size, type of industry, and level of education of owners/managers to be able to rule out the

influence of demographic variables in the amount of variance explained by composite dimensions of SER in SME performance [hypotheses 5(a) – 5(c)].

- To identify the best predictor to explain SME performance.

In this regard, a series of sequential/hierarchical multiple regressions were used to examine the relationship between predictors and outcome variable. One thing that needs mentioning is that the SME performance was measured by using three measurement items namely profit, return on asset (ROA), return on investment (ROI) and the overall SME performance in order to capture the multi-dimensional nature of the performance.

5.8.3 Assumptions of Regression

The regression analysis is one of the demanding statistical techniques that makes a number of assumptions about the data, and has severe impact on the end results if they are violated (Field, 2009:247; Gupta, 1999:7-16). From this understanding, prior to multiple regression analysis, a test of assumptions was performed to ensure credibility of results and the conclusions that will be drawn. In this case the following assumptions were tested: sample size requirement, multi-collinearity, outliers, normality, linearity, homoscedasticity, and independence of residuals (errors).

5.8.3.1 Sample size requirement for multiple regression

The multiple regression analysis is sensitive to the sample size. The issue at stake here is the generalization of findings. That is, with small samples you may obtain a result that does not generalise (cannot be repeated) with other samples. In social science research, if the sample does not generalise to a population of interest, they are of little scientific value (Zikmund, 2003). However, different authors tend to give different guidelines regarding the number of cases required for a multiple regression. Stevens (1996:72) recommends that for social science research, about 15 cases per predictor are required for reliable equation that translates into 135 cases for this study with 9 predictors. Tabachnick and Fidell (2007:123) give a formula for computing sample size requirements for a multiple regression, while considering the number of predictors required. The proposed formula to compute the sample size is given below:

$$N > 50 + 8M$$

Where:

M = number of predictors, and

N = number of cases.

For this case, with 9 predictors in this study, one would expect to have a minimum of 122 cases, a slightly lower number than the Steven's recommendation. Looking at both scenarios, 291 cases used in this study suffice the requirement of the minimum sample size and remove the fear to use a multiple regression as a technique of choice.

5.8.3.2   Multi-collinearity

Multi-collinearity exists when the predictor variables are highly correlated (r = 0.8 and above) (Field, 2009:224). Although Pallant (2007:155) suggests the lower cut off point of the bivariate correlation value of r = 0.7 and above are to be considered as multi-collinearity and are considered not to include any two variables with this value or above in the same analysis, taking into consideration that when dealing with large amount of data it may be tedious to sort out correlations greater than 0.7 or 0.9 whatever cut off point you choose from the correlation matrix. Field (2009:224) suggests the use of variance inflation factor (VIF), tolerance, and conditional index as a formal and the simplest way to examine multi-collinearity. The VIF indicates whether a predictor has a strong linear relationship. Previous studies provide cut-off points for VIF and tolerance values. For example, Bowerman and O'Connel (1990) and Meyers (1990) cited in Field (2009:242) suggest that if the largest VIF is greater than 10 there is cause for concern. If the average VIF is substantially greater than 1, the regression may be biased. According to Menard (1995) the tolerance value below 0.1 indicates a serious problem and a value below 0.2 indicates a potential problem.

According to Gupta (1999:7-17), collinearity cause a problem in the interpretation of the regression results. If the variables have a close linear relationship, the estimated regression co-efficients and t-statistics may not be able to properly isolate the unique effect or contribution of each variable and the confidence with which we can presume these effects to be true. In this view, the issue of multi-collinearity was given a due

consideration and since data were subjected under principle component factor analysis, this implies that all highly correlated variables were merged together to form a single/common factor.

5.8.3.3 Outliers

There are several ways to detect outliers, for example Tabachnick and Fidells (2007:75) and Pallant (2007:157) suggest use of scatter plots Mahalanobis distance values, case-wise diagnostics, and Cook's distance. However, Gupta (1999:7-12) argues that scatter plot is not a formal method of detecting outliers, although it is a good rapid visual test to give fast indication of presence of outliers, he supports Mahalanobis distance, case-wise diagnostics, and cook's distance as a formal test. Tabachnick and Fidell (2007:128) define outliers as those values with standardized residual values above 3.3 and or less than -3.3. A Multiple regression is very sensitive to outliers (very high or very low scores). Pallant (2007:158) suggests use of case-wise diagnostics which presents information about cases with standardized residual values above 3.0 or below - 3.0, in normally distributed sample it should not exceed 1 percent of cases falling outside this range. Checking for extreme scores was done at the initial stages of the data screening process. This was done for both categories of variables that is the independent and dependent variables, which were used in the multiple regression analysis. The search for outliers was performed by requesting case-wise diagnostics whereby the standardized residual values above 3.3 or less than - 3.3 were used as a cut off point for the case of case-wise diagnostics.

5.8.3.4 Normality, linearity, and homoscedasticity

All these refer to various aspects of the distribution of scores and the nature of the underlying relationship between the variables. These assumptions were checked from the residuals scatter plots which were generated as part of the multiple regression procedure. According to Gupta (1999:7-10), residuals are the differences between the obtained and the predicted dependent variables (DV) scores. The residual scatter plots allow checking for normality, linearity, and homoscedasticity. However, residuals scatter plots are not formal test for normality. In this case a formal test one sample Kolmogorov-Smirnov test was performed to confirm the results observed through visual test. Fields (2009:221) contend that for data to give credible results for regression analysis;

- the residuals should be normally distributed about the predicted dependent variable scores,

- the residuals should have linear (straight line) relationship with predicted dependent variable scores, and

- the variance of the residuals about predicted dependent scores should be the same for all predicted scores.

Gupta (1999:8-1) indicates that the impact of violation of the regression assumptions is the low credibility of the results and limit the generalisation of findings beyond the sample. In this regard, compliance to the assumption before carrying out the multiple regression analysis was meant to ensure credibility of the results and be able to generalise the findings beyond the selected sample.

5.8.3.5   Independent residuals (errors)

The Durbin Watson test was requested to test serial correlations between adjacent residuals. According to Field and Miles (2010:195), for any two observations the residual term should be uncorrelated. The intention for requesting the Durbin Watson test was to examine whether the adjacent residual are correlated.

5.9   HYPOTHESES TESTING

Based on the conceptualisation of the construct of strategic entrepreneurial response, it was assumed that the individual dimensions of market orientation (customer orientation, competitor orientation, and inter-functional coordination), entrepreneurial orientation (pro-activeness, innovation, risk taking, autonomy, and competitive aggressiveness), and networking capability (relational skills, internal communication, coordination, and partner's knowledge) to converge to a single component. In this view, the first order factor analysis was performed to extract factors from the test variables (items), while the second order factor analysis was performed to ascertain if the extracted factors converged to measure a single component. This test was performed to address proposition 1.

The convergence of individual dimensions of market orientation, entrepreneurial orientation, and networking capability into a single component (SER) does not tell if there

is any relationship with the outcome variable (SME performance). Based on this observation, it was deemed logical to examine the relationship between the individual and composite dimensions of SER and SME performance. A series of sequential / hierarchical multiple regression analysis were performed to test for:

- The relationship between individual dimensions of SER and SME performance [hypotheses 1(a) – 1(i)].

- The relationship between composite dimensions of SER and SME performance [hypotheses 2(a) –2(c)].

- The amount of variance explained in SME performance by composite dimensions of SER [hypotheses 3(a) – 3(c)].

- The amount of variance accounted for in SME performance by the interaction of dimensions of SER {hypotheses 4(a) – (b)].

- Control the influence of firm size, type of industry and level of education of owner/managers to rule out their influence in the amount of variance explained in SME performance by composite dimension of SER [hypotheses 5(a) – 5(c)].

- Identify the best predictor to explain SME performance.

Field and Miles (2010) noted that beta value plays two roles in the regression analysis. It hints the relationship between predictor and outcome and provides bases for the judgement of contribution of predictor to the outcome. In view of this, beta value was used to examine the relationship [hypotheses 1(a) – 1(i) & 2(a) – 2(c)] and contribution of dimensions of SER on SME performance. Consistently, the co-efficient of regression (R^2) was used to identify the amounts of variance explained in SME performance by independent variables such as the composite dimensions of SER [hypotheses 3(a) – 3(c)] and the interactions of composite dimensions of SER [hypotheses 4(a) – 4(b)].

Furthermore, hierarchical or sequential regression was performed to control the effects of firm size, types of industry, and level of education of owners/managers to rule out the influence of the demographic variables and be able to draw a conclusion to whether the variance accounted in SME performance by the dimensions of SER is or not influenced by the background variables [hypotheses 5(a) – 5(c)]. Pallant (2007:160) argued that the sequential regression has a power to control the influence of the initial variables entered in

the model and makes it possible to isolate the amount of variance explained in the outcome variable as a result of adding new predictors in the model. The unique amount of variance explained by new predictors is represented by the R square change (ΔR^2).

After thorough examination of the relationship between predictors and outcome variables the amount of variance explained by the composite dimensions of SER in SME performance, the amount of variance explained by interaction of the composite dimensions of SER in SME performance, and examined the influence of the demographic variable on the relationship between the composite of dimensions of SER and SME performance, the study identified the best predictor to explain SME performance in competitive environment.

5.10 CHAPTER SUMMARY

This chapter provided a summary of the research methodology used in this study. It highlighted the research questions that prompted this study, followed by the hypotheses, which guided this study. The chapter described the research design and sampling procedure used in this study, also clearly clarified the measurements used to capture data and the criteria used to ensure credibility of the results. The last part of the chapter presented the section on data analysis that clearly highlighted the inferential statistics applied to judge the advanced hypotheses guided this study, and through which conclusions were arrived. Chapter six presents the findings of this study.

CHAPTER LAYOUT – CHAPTER SIX
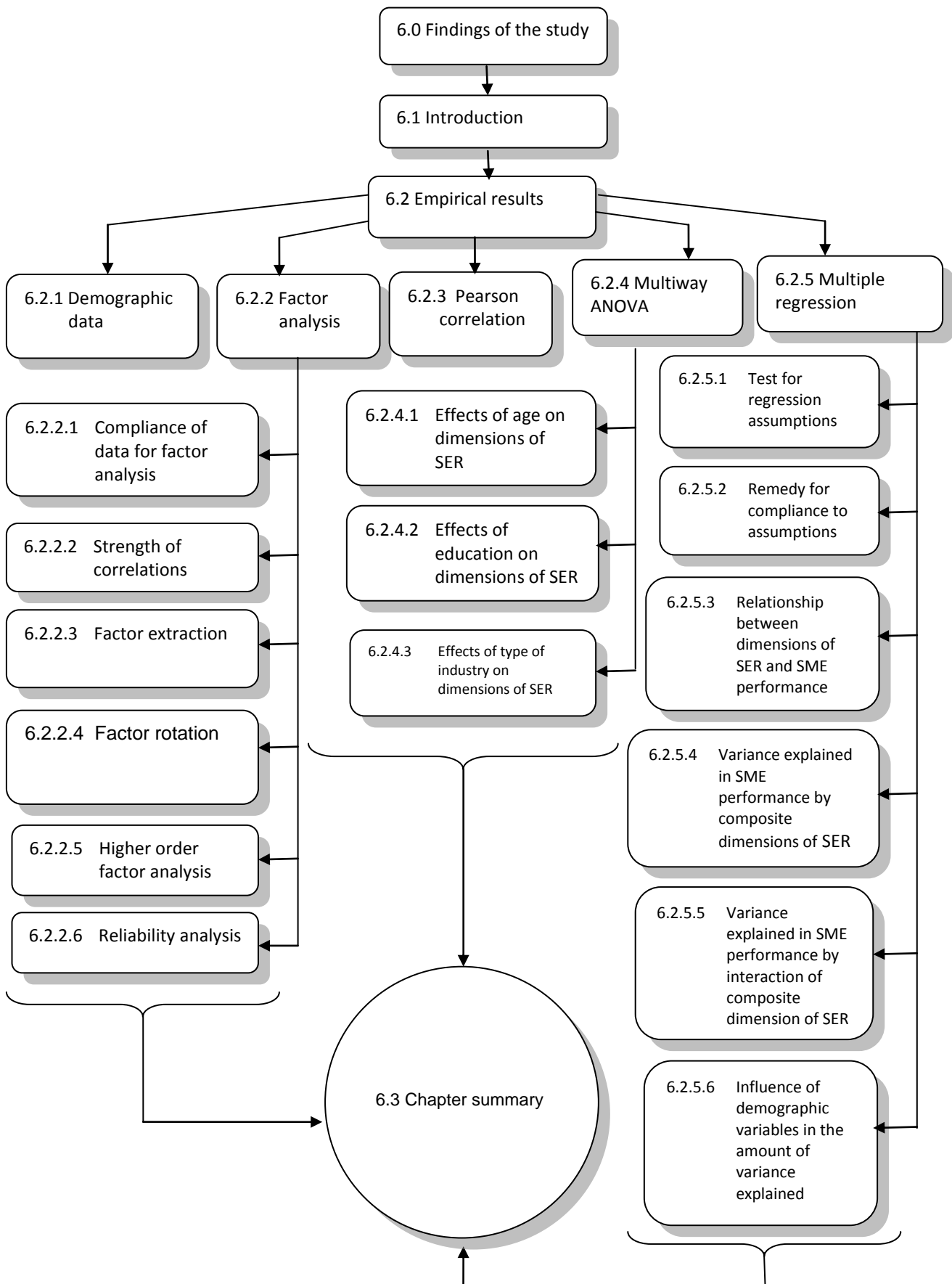
6   FINDINGS OF THE STUDY

6.1   INTRODUCTION

This chapter presents results of empirical research. The findings covers the demographic information that briefly highlights the response rate indicating the proportion of questionnaire recovered from the respondents, the distribution of respondents by gender and age, the level of education of respondents and the number of employees in businesses covered by this study. Others are age of business in complete years, distribution of businesses by regions, the total investment capital of a firm, reported average employment growth for the past three years, reported wage bill growth, sales growth, average profit growth, return on asset, and return on investment. Furthermore, the results on factor analysis, Multiway Analysis of Variance (ANOVA), and the multiple regressions are also presented.

6.2   EMPIRICAL RESULTS

The empirical results are presented in four sections; firstly, the demographic data that presents the response rates and distribution of characteristics of the sampling unit. Secondly, the factor analysis was used for data reduction to easier handling of data during analysis. Thirdly, the Analysis of Variance (ANOVA) used to compare means of the demographic variables (i.e gender, age of respondent, level of education of owners/managers, age of business, and type of industry) and examines if there is any significant difference in terms of individual dimensions of the strategic entrepreneurial response (SER) such as customer orientation, competitors orientation, pro-activeness, risk taking, competitive aggressiveness, relational skills, internal communication, coordination, and partners knowledge. Fourthly, the multiple regression analysis was used to examine the relationship between SME performance and individual and composite dimensions of SER, examine the amount of variance explained in SME performance by the composite dimensions of SER and identify the best predictor to explain SME performance.

6.2.1   Demographic Data

Demographic results are presented in a series of tables and figures in the following sections. The major findings presented under this section are the response rate, distribution of business owners/managers by gender, age of the business

owners/managers, and the highest level of education of the business owners/managers. Others include age and distribution of business by region, distribution of industrial sectors covered in this study, total investment costs of firms, distribution of firms by size, reported employment growth, reported wage bill growth, sales and profit growth, reported average profit, for the past three years and the level of return on asset and return on investment.

The response rate (R_r) was computed as a proportion of the number of useful questionnaire ($N_{usefulQn}$) divided by the total number of respondents interviewed ($T_{respondents}$) multiplied by 100 to obtain percentage (See Equation 6.1).

$$R_r = \frac{N_{usefulQn}}{T_{respondent}} \text{ X } 100 \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots (Equation\ 6.1)$$

The target of the study was SME owners/managers to whom 360 questionnaires were administered. However, in the course of data entry, 291 questionnaires were found useful for data analysis. The redundant questionnaires were mainly due to incomplete filling of the key information required by this study or none response for questionnaires that were distributed to respondents for self-administering. The number of useful questionnaires translates into a response rate of 80.83 percent which is considered adequate for data analysis.

Table 6.1:   Distribution of business owners/managers by gender

Gender	Frequency	Percentage (%)
Male	158	54.30
Female	133	45.70
Total	**291**	**100.00**

Missing = 0   Source: Survey

The findings summarised in Table 6.1 indicate that the gender ratio of respondents between male and female stands at 54:46. This implies that slightly more men are engaged in types of businesses selected for this study.

Table 6.2:   Age of business owners/managers

Age	Frequency	Percentage (%)
20 -29 years	35	12.03
30 – 39 years	105	36.08
40 – 49 years	104	35.74
50 years and above	47	16.15
Total	**291**	**100.00**

Missing = 0   Source: Survey

Table 6.2 presents the distribution of age among business owners/managers in years. The business owner/managers with the age between 30–49 years form about 71.82 percent of all business owners/managers. The business owner/manager with the age between 20 and 29 years, form the smallest category with about 12.03 percent of all business owners/managers. The findings indicate that the age between 30 and 49 years is the most active age engaged in business activities in Tanzania.

Table 6.3:   Highest level of education of business owners/managers

Level of education	Frequency	Percentage (%)
Primary education and below	65	22.34
Secondary education	86	29.55
Certificate	62	21.31
Diploma & Graduate	78	26.80
Total	**291**	**100.00**

Source: Survey

The education level is frequently associated with the entrepreneurial performance (Mass & Herrington, 2006:30). With this understanding it was deemed necessary to examine the level of education among business owners/managers. Table 6.3 indicated that about 77.66 percent of the business owners/managers at least had a secondary education. As such, the business community, with this level of education, should easily be supported in terms of training as a strategy for capacity building.

Table 6.4:   Age of business

Age	Frequency	Percentage (%)
5 – years or less	98	33.68
6 – 10 year	107	36.77
11 – 20 years	67	23.02
21 years or more	19	6.53
Total	**291**	**100.00**

Missing = 0   Source: Survey

Several studies indicate that the failure rate of newly established business globally is high (Maas & Herrington, 2006:29). According to small business administration the failure rate of start-ups is around 70% to 80% in the first year and only about half of those who survive the first year, remain in business for the next five years (Mason, 2012). Although in Tanzania there is no actual figure in terms of a failure rate, it is not exceptional for the rest of the world. The result in Table 6.4 shows that 33.7 percent of businesses are 5 years or less and 66.3 percent of businesses are 6 years and more. Mass and Herrington (2007:11) suggest that businesses between 0 and 3 months are start-ups, businesses between the age of 3 and 42 months are new firms and businesses older than 42 months (three and half years) are established firms. In light of this, the majority of businesses covered in this study are established firms.

Table 6.5:   Distribution of business by region

Region	Frequency	Percentage (%)
Dar es salaam	87	29.90
Morogoro	106	36.42
Iringa	98	33.68
Total	**291**	**100.00**

Missing = 0   Source: Survey

Table 6.5 presents the distribution of businesses in the three regions of Tanzania where data were collected. The findings indicate that there were slight variations in the sample size among regions with the highest recorded in the Morogoro region with 36.42 percent.
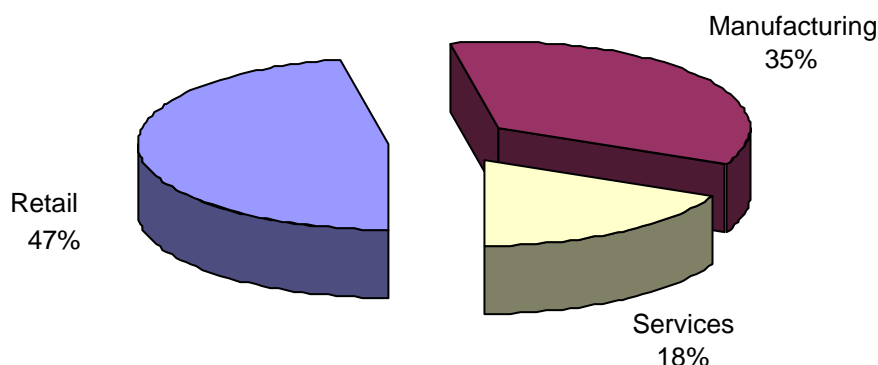
Figure 6.1:   Distribution of businesses by industries

This study examined the distribution of business by economic sectors. In view of the results presented in Figure 6.1, the retail sector had a high composition of about 47 percent of the total sample followed by the manufacturing sector's 35 percent and the service sector's 18 percent. The dominance of the retail sector is not surprising, since it is easier and convenient to establish in the Tanzanian environment.

Table 6.6:   Total investment capital of firm

Total investment capital (TAS)	Frequency	Percentage (%)
Up to 5,000,000	50	17.18
5,000,000 – 200,000,000	193	66.32
200,000,001 – 800,000,000	40	13.75
Above 800,000,000	8	2.75
Total	**291**	**100.00**

TAS = Tanzanian Shilling   (1USD ≈ TAS 1,504.50)

In the course of research, it was deemed necessary to investigate the total investment capital of each business covered during the survey. The total investment capital is a dominant criterion for business categorisation in Tanzania (Ministry of Industry and Trade, 2003:3). Table 6.6 indicates that 66.3 percent of businesses had investment capital of between 5 and 200 million, and only 2.7 percent had an investment capital above 800

million. These findings imply that the majority (66.3%) of businesses sampled in this study were the small businesses.

The distribution of businesses by size was examined. While globally there are several criteria[1] used for business size categorisation, in Tanzania two dominant criteria apply; the first criteria is the number of employees and the second criteria is the total investment capital (Ministry of Industry and Trade, 2003:3). However, the total investment capital rules out in case of overlaps amongst the classification criteria. With this understanding, this study decided to use the total investment capital for business categorisation to avoid ambiguity that might arise due to criteria overlap.

According to the Ministry of Industry and Trade (2003:3) in Tanzania, micro enterprises are businesses with the investment capital of up to 5 million, small businesses are businesses with an investment capital of between 5 and 200 million, medium enterprises are businesses with an investment capital of between 200 and 800 million and business firms with an investment capital above 800 million are categorised as large businesses. In light of the criteria by the Ministry of Industry and Trade (MIT), drawing from results on total investment capital of firms presented in Table 6.6, it was possible to establish the distribution of firms by its size.
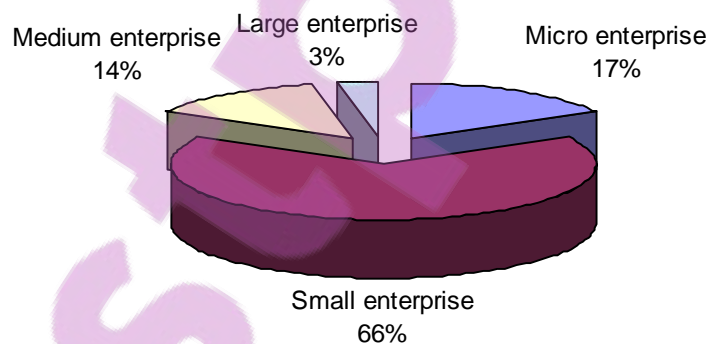
Figure 6.2:   Distribution of firms by size

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[1] Global business size categorisation criteria; numbers of employees, capital investment, shareholding, market share and turnover.

Figure 6.2 clearly indicates that the majority of business segments in the study area are small businesses that account for about 66 percent, and the least segment is large businesses with only 3 percent of the total businesses surveyed. The distribution of businesses presented in these findings, is the reflection of the real situation in terms of business distribution in Tanzania that is dominated by the small business with very few medium and large businesses.

Table 6.7:   Reported average employment growth for the past three years

Average employment growth	Frequency	Percentage (%)
Decreasing (< 0%)	39	15.73
No change (0%)	121	48.79
Increasing (1 – 10%)	26	10.48
Increasing (11– 20%)	27	10.89
Increasing (≥ 21%)	35	14.11
Total	**248**	**100.00**

Missing = 43 (14.8%)   Source: Survey

Table 6.7 presents findings on reported average employment growth in SMEs for the past three years. The analysis employed five criteria namely; decreasing employment growth (less than zero percent growth), no growth/change (zero percent/no change), increasing growth between 1 and 10 percent, increasing growth between 11 and 20 percent and increasing growth above 20 percent. In view of the identified criteria 64.52 percent of SMEs in Tanzania are not creating new employment for the past three years of which about 48.79 percent could not create new employment and 15.73 percent experienced employment shedding for the past three years. On the other hand, the proportion of SME's that recorded employment growth in the study area was only 35.48 percent. The findings hint that SMEs in Tanzania are not contributing much in employment growth as one would expect.

Table 6.8: Reported average wage bill for the past three years

Wage bill	Frequency	Percentage (%)
Decreasing (< 0 %)	18	8.00
No change (0 %)	27	12.00
Increasing (1 – 10%)	77	34.22
Increasing (11 – 20%)	42	18.67
Increasing (≥ 21%)	61	27.11
Total	**225**	**100.00**

Missing = 66 (22.7%)   Source: Survey

This study examined the average wage bill growth for the past three years. Table 6.8 present findings that indicate 20 percent of SMEs experienced either a decrease in the wage bill or there were no change of which 8 percent of firms experienced negative growth of wage bill and 12 percent of firms recorded zero growth. At the same time about 80 percent of SMEs' experienced growth in the wage bill.

Table 6.9: Reported average sales growth for the past three years

Sales growth	Frequency	Percentage (%)
Decreasing (< 0 %)	10	14.49
No change (0 %)	0	0.00
Increasing (1 – 10%)	38	55.07
Increasing (11 – 20%)	12	17.39
Increasing (≥ 21%)	9	13.05
Total	**69**	**100.00**

Missing = 222 (76.3%)   Source: Survey

Examining reported average sales growth for the past three years, respondents were asked to report sales growth during the past three years of their firms. However, about 76.3 percent could not provide complete information for the past three years due to poor record keeping and it was treated as missing data during the analysis. The findings summarised in Table 6.9 indicates that of all respondents that provided information on sales growth; 85.51 percent reported sales growth and only 14.49 percent recorded a decline in sales growth. The findings hint that the majority of firms in the study area for the period of three years, performed well in terms of sales growth.

The SME performance was examined by several measures such as average profit generated by the firm, return on assets and return on investment. The results for these measures are presented in a series of tables below.

Table 6.10:   Reported average profit growth for the past three years

Profit growth	Frequency	Percentage (%)
Decreasing (< 0 %)	7	2.46
No change (0 %)	1	0.35
Increasing (1 – 10%)	16	5.61
Increasing (11– 20%)	54	18.95
Increasing (≥ 21%)	207	72.63
Total	**285**	**100.00**

Missing = 6   Source: Survey

Table 6.10 presents findings of reported average profit growth for the past three years. The results show that 97.19 percent of firms recorded profit growth and 2.81 percent of firms either recorded no change or a decrease in profit growth for the past three years. These findings indicate that firms performed well in terms of profit generation during the past three years.

Table 6.11:   Reported return on assets (ROA) per annum

Return on assets (ROA)	Frequency	Percentage (%)
Decreasing (< 0 %)	7	2.46
No change (0 %)	1	0.35
Increasing (0 – 5 %)	150	52.63
Increasing (5 – 10 %)	77	27.02
Increasing (above 10%)	50	17.54
Total	**285**	**100.00**

Missing = 6   Source: Survey

Table 6.11 summarises results on the level of ROA among surveyed businesses. The findings indicate that 97.19 percent of firms registered an increase in return on assets (ROA) and only 2.81 percent of firms recorded a decrease or static growth in ROA. These results are consistent with the reported average profit growth reported in Table 6.10, probably because ROA relies on generated profit.

Table 6.12: Reported average return on investment (ROI) per annum

Return on investment (ROI)	Frequency	Percentage (%)
Decreasing (< 0 %)	7	2.41
No change (0 %)	1	0.34
Increasing (0 – 5 %)	212	73.10
Increasing (5 – 10 %)	41	14.14
Increasing (above 10%)	29	10.00
Total	**290**	**100.00**

Missing = 1   Source: Survey

The ROA was examined parallel to the return on investment (ROI). The results on the level of ROI are summarised in Table 6.12 and yield a similar trend as the ROA findings summarised earlier in Table 6.11 with the high proportion of firms (97.25 percent) recorded an increase in ROI and only 2.75 percent had no change or recorded ROI below zero percent.

6.2.2   Factor Analysis

Factor analysis is a group of analytical techniques used for different purposes such as data reduction, development and evaluation of tests and scales (Tabachnick & Fidell, 2007:607; Pallant, 2011:181). According to Pallant (2011:181) there are two main approaches to factor analysis that are commonly discussed in various literatures; exploratory and confirmatory. An exploratory factor analysis is used to explore the inter-relationship amongst a set of variables, while the confirmatory factor analysis is used to test specific hypotheses or theories regarding the structure of the underlying latent variables. This study adopted the exploratory factor analysis to explore the inter-relationship amongst variables and reduce them into fewer factors that are easily manageable.

6.2.2.1   Compliance of data for factor analysis

The compliance of data for factor analysis was performed through Kaiser-Meyer-Olkin measure of sampling adequacy and Bartlett's test and strength of correlation among variables. The intention of the test was to determine whether data are suitable for factor analysis.

Table 6.13: Kaiser-Meyer-Olkin measure of sampling adequacy and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.947
Bartlett's Test of Sphericity	Approx. Chi-Square	9209.008
	Df	990
	Sig.	0.000

Source: Survey

Table 6.13 presents results of the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy and Bartlett's test of sphericity. The KMO measure of 0.947 indicates a high sampling adequacy for factor analysis that is quite far beyond the cut-off point of 0.5 (Kaiser, 1970:405; Kaiser, 1974:35). The Bartlett's test of sphericity on the other hand, tests the null hypothesis that the original correlation matrix (R-matrix) of the test variables is an identity matrix, which implies that there is no correlation between test variables (Field, 2009:660). The literature shows that for factor analysis to work, some relationships between tests variables are required (Pallant, 2011:183). The recorded significant value of Bartlett's test at $p < 0.01$, implies that the original R-matrix is significantly different from an identity matrix. These findings suggest that there are some correlations between test variables and that the data is suitable for factor analysis.

Table 6.14: Communalities after extraction

Items	Initial	Extraction
VAR08 Firm knows whether competitors are open to customers' complaints	1.000	.648
VAR09 Firm is engaged in development of new products / services	1.000	.394
VAR11 Firm regularly invests in new facilities (annually or less)	1.000	.712
VAR12 Firm knows how competitors maintain relationships with customers	1.000	.664
VAR14 Firm believes that higher financial risks are worth taking for higher rewards	1.000	.630
VAR15 Firm solves problems constructively with partners	1.000	.827
VAR16 Firm likes to take big financial risks	1.000	.727
VAR17 Firm gathers information regularly about customers' needs	1.000	.752
VAR18 Firm knows partners' products / services	1.000	.709
VAR19 Firm knows partners' potential and strategies	1.000	.742
VAR20 Firm knows in which ways competitors attract customers	1.000	.674
VAR21 Firm pursues new business ideas while knowing well that some will fail	1.000	.745
VAR23 Firm looks for ways to offer customers more values	1.000	.648
VAR24 Firm experiments with new ways of doing business	1.000	.411
VAR25 Firm knows whether customers buying from competitors are satisfied	1.000	.663
VAR27 Firm can put itself in partners position	1.000	.800
VAR28 Firm offers products / services to customers in a different way from competitor	1.000	.546
VAR31 Firm can deal flexibly with partners	1.000	.815
VAR34 Firm monitors customers buying from competitors	1.000	.617
VAR36 Firm matches the use of resources to the partners relationship	1.000	.717
VAR37 Firm deliberately studies partners' strength and weaknesses	1.000	.779
VAR38 Firm involves customers in decisions that affect the relationship	1.000	.363
VAR40 Firm holds regular meetings for every department / all workers to assess business progress	1.000	.762
VAR42 Customers see themselves as our partners	1.000	.530
VAR43 Firm analyses what it would like and desire to achieve with which partner	1.000	.750
VAR46 firm has a formal system for handling customer complaints	1.000	.631
VAR48 Firm has the ability to build good personal relationships with business partners	1.000	.790
VAR49 Firm has a tendency to be ahead of competitors in introducing novel business idea or products /service	1.000	.850
VAR50 Firm's managers and employees do give intensive feedback to each other	1.000	.596
VAR52 Firm discusses regularly with partners how to support each other for their success	1.000	.661
VAR53 Firms' business information is often communicated across departments / all workers	1.000	.684
VAR54 in response to competitors actions, firm is very aggressive	1.000	.751
VAR55 Firm knows why customers continue buying from competitors	1.000	.699
VAR56 Firm knows why customers switch to competitors	1.000	.679
VAR59 Firm typically adopts a very competitive "undo the competitors" posture	1.000	.661
VAR60 Firm always the first to introduce new products / services	1.000	.865
VAR62 Firm judges in advance possible partners to talk to about building up relationships	1.000	.701
VAR63 Firm is incorporating the latest technology for the industry	1.000	.648
VAR64 Firm hold regular meeting for every department or workers to develop business plan	1.000	.766
VAR65 Firm hold regular meeting for every department or workers to develop business plan	1.000	.763
RevSc51 In dealing with competitors, the firm is seldom the first business to introduce new products / services	1.000	.788
RevSc61 In dealing with competitors, the firm typically responds to action which competitors initiate	1.000	.805
RevSc13 Firm invests only in business that ensures success and profitability	1.000	.605
RevSc22 Firm makes no special effort to take business from the competitors	1.000	.788
RevSc45 Firm typically seeks to avoid competitive clashes, preferring a "live and let leave" posture	1.000	.725

Extraction Method: Principal Component Analysis.　　　　　　　　　　Source: Survey

Table 6.14 presents a summary of communalities after extraction. The results shows that of all 45 variables subjected to a factor analysis, the communalities after extraction ranged between 0.363 and 0.865, which are all above the cut-off point of 0.3. According to Pallant (2011:198) communalities give information on how much variance in each item is explained and a value less than 0.3 could indicate that the respective item does not fit well with other items in its component. In light of these findings, the values of communalities above 0.3, suggest that the test items fit well in their respective factors.

6.2.2.2   Strength of correlations among variables

The correlations between items were performed through scanning the correlation matrix (R-Matrix). The variables that recorded lots of correlations below 0.3 with other variables were excluded in the factor analysis; this is according to Field and Miles (2010:566) and Field (2009:657). Table 6.15 gives a summary of variables omitted in the factor analysis.

Table 6.15:   Omitted variables/questions from factor analysis

Variable No.	Description of variable
VAR10	The firm owns patents/other proprietary information.
VAR26	The firm department/workers take collective decisions that affect relationship with customers
VAR29	Members of staff share business ideas freely within the firm.
VAR30	The firm's departments/workers jointly visit customers.
VAR32	The firm's departments/workers jointly satisfy customers' needs.
VAR33	You will be ready to accept good money from somebody to take over your firm and makes you one of their employees.
VAR35	The firm's departments/workers are collectively aware of the importance of the relationship with customers.
VAR39	The firm informs staff members of partners' goals, potential and strategies.
VAR41	Staff members are free to express their individual opinions.
VAR44	The firm appoints specific coordinator(s) responsible for the relationships with customers.
VAR47	Management does not interfere when staff members introduce new business ideas.
VAR57	The firm's employees develop informal contacts among themselves.
VAR58	The firm informs staff members of customer's needs.

6.2.2.3 Factor extraction

While there are several methods of factor extractions, such as principal component factor analysis, principal factors, image factoring, maximum likelihood, alpha factoring, unweighted least squares, and generalised least squares, several authors suggest that the most commonly used method, is the principal component analysis (Pallant, 2011:183; Field, 2009:638). This study adopted a principal component factor analysis as suggested by several scholars. Table 6.16 presents a list of eigenvalues associated with each factor before extraction, after extraction and after rotation. Before extraction, the analysis identified 46 linear components with the data set. The eigenvalues associated with each factor represent the amount of the total variance explained by that particular linear component (factor) (Pallant, 2011:184).

Table 6.16: Total variance explained by extracted factors

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	**17.798**	38.691	38.691	17.798	38.691	38.691	4.699	10.216	10.216
2	**2.613**	5.681	44.372	2.613	5.681	44.372	3.846	8.360	18.576
3	**2.480**	5.390	49.762	2.480	5.390	49.762	3.605	7.838	26.413
4	**1.910**	4.151	53.913	1.910	4.151	53.913	3.547	7.711	34.125
5	**1.683**	3.659	57.572	1.683	3.659	57.572	3.382	7.353	41.478
6	**1.457**	3.168	60.740	1.457	3.168	60.740	3.242	7.048	48.526
7	**1.231**	2.675	63.416	1.231	2.675	63.416	3.204	6.964	55.490
8	**1.140**	2.478	65.893	1.140	2.478	65.893	3.039	6.607	62.096
9	**1.044**	2.269	68.162	1.044	2.269	68.162	2.790	6.065	68.162
10	0.988	2.148	70.310						
11	0.880	1.913	72.223						
12	0.825	1.793	74.016						
13	0.760	1.653	75.669						
14	0.703	1.528	77.197						
15	0.670	1.457	78.653						
16	0.633	1.376	80.029						
17	0.618	1.343	81.373						
18	0.557	1.210	82.583						
19	0.539	1.172	83.755						
20	0.517	1.125	84.880						
21	0.472	1.027	85.907						
22	0.443	0.963	86.870						
23	0.407	0.885	87.755						
24	0.395	0.859	88.615						
25	0.372	0.808	89.422						
26	0.356	0.773	90.196						
27	0.349	0.759	90.954						
28	0.331	0.720	91.674						
29	0.307	0.666	92.341						
30	0.299	0.651	92.991						
31	0.294	0.640	93.631						
32	0.282	0.614	94.245						
33	0.264	0.574	94.818						
34	0.256	0.556	95.374						
35	0.235	0.511	95.885						
36	0.227	0.493	96.378						
37	0.220	0.478	96.856						
38	0.209	0.455	97.311						
39	0.202	0.439	97.750						
40	0.196	0.426	98.176						
41	0.175	0.380	98.555						
42	0.163	0.353	98.909						
43	0.158	0.343	99.252						
44	0.142	0.309	99.561						
45	0.136	0.295	99.856						
46	0.066	0.144	100.000						

Extraction Method: Principal Component Analysis.   (Source: Survey)

The analysis then extracted all factors with eigenvalues of 1.0 and above based on the Kaiser's recommendation (Field, 2009:652; Pallant, 2011:184) of which un-rotated factor solution retained nine (9) factors which explained 68.16 percent of the total variance. The largest proportion of the variance before rotation explained by factor 1 (38.69%), which is relatively higher compared to other factors. The eigenvalues associated with individual factors are again displayed with their percentage of variance explained in the column labelled "extraction sums of squared loadings". The values are the same as the values before extraction, except that the values for the discarded factors with eigenvalues below 1.0 are ignored hence, Table 6.16 is blank after the ninth factor.

6.2.2.4 Factor rotation

In the final part of Table 6.16 labelled "rotation sums of squared loadings", eigen values of factors after oblique (direct oblimin) rotation are displayed. The oblique rotation was chosen with the assumption that the extracted factors are related. Rotation has the effect of optimizing the factor structure and one consequence for the data set is that the relative importance of the nine factors is equalized. Before rotation, factor 1 accounted for considerable more variance (38.691%) compared to the remaining eight factors (5.681%, 5.390%, 4.151%, 3.65%, 3.168%, 2.675%, 2.478% and 2.269%). However, after rotation, factor 1 accounted for only 10.216% of variance compared to 8.360%, 7.838%, 7.711%, 7.353%, 7.048%, 6.964%, 6.607% and 6.065% for the remaining eight factors.

Table 6.17:   Pattern Matrix for exploratory factor analysis after oblique rotation

Item	Factors								
	1	2	3	4	5	6	7	8	9
Firm gathers information regularly about customer's needs	.737								
Firm has a formal system for handling customers complaints	.626								
Firm looks for ways to offer customer more value	.595								
Customers see themselves as our partners	.520								
Firm solves problems constructively with partners		.899							
Firm has the ability to build good personal relationships with business partners		.882							
Firm can deal flexibly with partners		.879							
Firm can put itself in partners' position		.873							
Firm holds regular meetings for all workers to assess business progress			.841						
Firm hold regular meeting for every department or workers to develop business plan			.823						
Firms' business information is often communicated to all workers			.746						
Firms' managers and employees do give intensive feedback to each other			.710						
Firm matches the use of resources (e.g. personnel, finances) to the partners' relationship				-.744					
Firm discusses regularly with partners how to support each other for their success				-.703					
Firm analyses what it would like and desire to achieve with which partner				-.677					
Firm judges in advance possible partner to talk to about building up relationship				-.658					
In dealing with the competitors, the firm is seldom the first business to introduce new products/services					-.895				
In dealing with competitors, the firm typically responds to action which competitors initiate					-.856				
The firm is always the first to introduce new product/services					-.838				
Firm has a tendency to be ahead of competitors in introducing novel business idea or products/services					-.828				
Firm likes to take big financial risks						-.794			
Firm believes that higher financial risks are worth taking for higher rewards						-.744			
Firm invest only in business that ensures success and profitability						-.702			
Firm pursue new business idea while knowing well that some will fail						-.681			
Firm knows partners' potential and strategies							.777		
Firm knows partners' markets							.746		
Firm deliberately studies partners' strengths and weaknesses							.706		
Firm knows partner's products/services							.703		
Firm knows in which ways competitors attract customers								.808	
Firm monitors customers buying from competitors								.720	
Firm knows whether customers buying from competitors are satisfied								.638	
Firm knows why customers continue buying from competitors								.620	
Firm knows whether competitors are open to customer's complaints								.587	
Firm knows why customers switch to competitors								.580	
Firm knows how competitors maintains relationship with customers								.558	
Firm offers products/services to customers in a different way from competitor									.583
Firm typically seeks to avoid competitive clashes, preferring a "live and let-leave" posture									.561
Firm makes no special effort to take business from competitors									.492
Firm typically adopts a very competitive "undo the competitors" posture.									.467
In response to competitor actions, the firm is very aggressive									.406

Source: Survey

Table 6.17 presents a summary of the pattern matrix for exploratory factor analysis after oblique rotation. Field and Miles (2010:575) point that in oblique rotation it is advisable to present results of both the pattern matrix and structure matrix to be able to compare the factor structure and confirm if there is any correlation among factors. Examining the pattern matrix and structure matrix for these findings, presented in Table 6.17 and 6.18 respectively, it showed a similar pattern of factor loadings. However, the double loadings on a structure matrix (Table 6.18) confirm existence of correlations among factors. The existence of correlations between factors supports the use of the oblique rotation.

Table 6.18: Structure matrix for exploratory factor analysis after oblique rotation

Item	Factors								
	1	2	3	4	5	6	7	8	9
Firm gathers information regularly about customer's needs	**.828**					-.421	-.415	.449	
Firm has a formal system of handling customers complaints	**.754**					-.451		.442	
Firm looks for ways to offer customers more value	**.753**					-.427		.530	
Customers see themselves as our partners	**.659**				-.426	-.450		.401	
Firm solve problems constructively with partners		**.906**							
Firm can deal flexibly with partners		**.896**							
Firm can put itself in partners position		**.890**							
Firm has ability to build good personal relationships with business partners		**.884**							
Firm hold regular meeting for every department or workers to develop business plan			**.848**						
Firm holds regular meetings for every department/all workers to assess business progress			**.842**						
Firms' business information is often communicated across department/all workers			**.792**						
Firms' managers and employees do give intensive feedback to each other			**.719**						
Firm matches use of resources to the partners relationship				**.821**			-.410		
Firm analyses what it would like and desire to achieve with which partner				**.814**	-.412		-.520		
Firm discusses regularly with partners how to support each other for their success				**.788**					
Firm judges in advance possible partners to talk to about building up relationship				**.787**			-.470		
Firm is always the first to introduce new product/services					**-.918**	-.451	-.432	.467	
Firm has a tendency to be ahead of competitors in introducing novel business ideas or products/services					**-.908**	-.444	-.452	.477	
In dealing with competitors the firm typically responds to action which competitors initiate					**.890**		-.457		
In dealing with competitors, the firm is seldom the first to introduce new products/services.					**.879**				
Firm regularly invests in new facilities (annually or less)	.463			.489	**-.637**	-.532	-.500	.587	-.572
Firm is incorporating the latest technology for the industry	.449				**-.611**	-.542	-.432	.538	-.580
Firm likes to take big financial risks	.420					**-.832**			
Firm pursue new business ideas while knowing well that sum will fail	.444				-.458	**-.822**		.480	
Firm believes that higher financial risks are worth taking for higher rewards						**-.783**			
Firm invests only in business that ensures success and profitability						**.764**			
Firm is engaged in development of new products/services					-.442	**-.513**		.443	
Firm involves customers in decisions that affect the relationship				.423	-.411	**-.461**			
Firm knows partners' potential and strategies							**-.851**		
Firm deliberately studies partners' strengths and weaknesses				.467	-.462		**-.848**	.413	
Firm knows partners' markets					-.426		**-.842**	.494	
Firm knows partner's products/services				.461	-.407		**-.808**		
Firm knows in which ways competitors attract customers								**.799**	
Firm knows why customers continue buying from competitors					-.488	-.493	-.479	**.779**	-.410
Firm monitors customers buying from competitors								**.777**	
Firm knows why customers switch to competitors				.440	-.507	-.485	-.460	**.766**	
Firm knows whether customers buying from competitors are satisfied	.508				-.459			**.753**	
Firm knows whether competitors are open to customers' complaints	.485				-.513			**.753**	
Firm knows how competitors maintain relationships with customers					-.479	-.426	-.530	**.747**	-.414
Firm typically seeks to avoid competitive clashes preferring a "live and let leave" posture	-.570			-.403				-.513	**.709**
Firm makes no special effort to take business from competitors	-.575			-.517	.433	.443	.486	-.553	**.693**
Firm offers products/services to customers in a different way from competitors									**-.649**
Firm typically adopts a very competitive undo the competitors posture.	.601					-.408	-.457	.448	**-.638**
Firm monitors customers buying from competitors	.610			.507	-.472	-.447	-.507	.557	**-.633**
Firm experiments with new ways of doing business		.410					-.451	.417	**-.461**

Deriving from Table 6.17 of the summary of the pattern matrix for exploratory factor analysis (N=291) complemented by the results summarised in a structure matrix in Table 6.18, it was possible to develop themes of factors based on the items loaded highly in each factor. In this regard, the extracted factors, after rotation, were named as customer orientation (factor 1), relational skills (factor 2), internal communication (factor 3), coordination (factor 4), pro-activeness (factor 5), risk taking (factor 6), partners' knowledge (factor 7), competitor's orientation (factor 8) and competitive aggressiveness (factor 9).
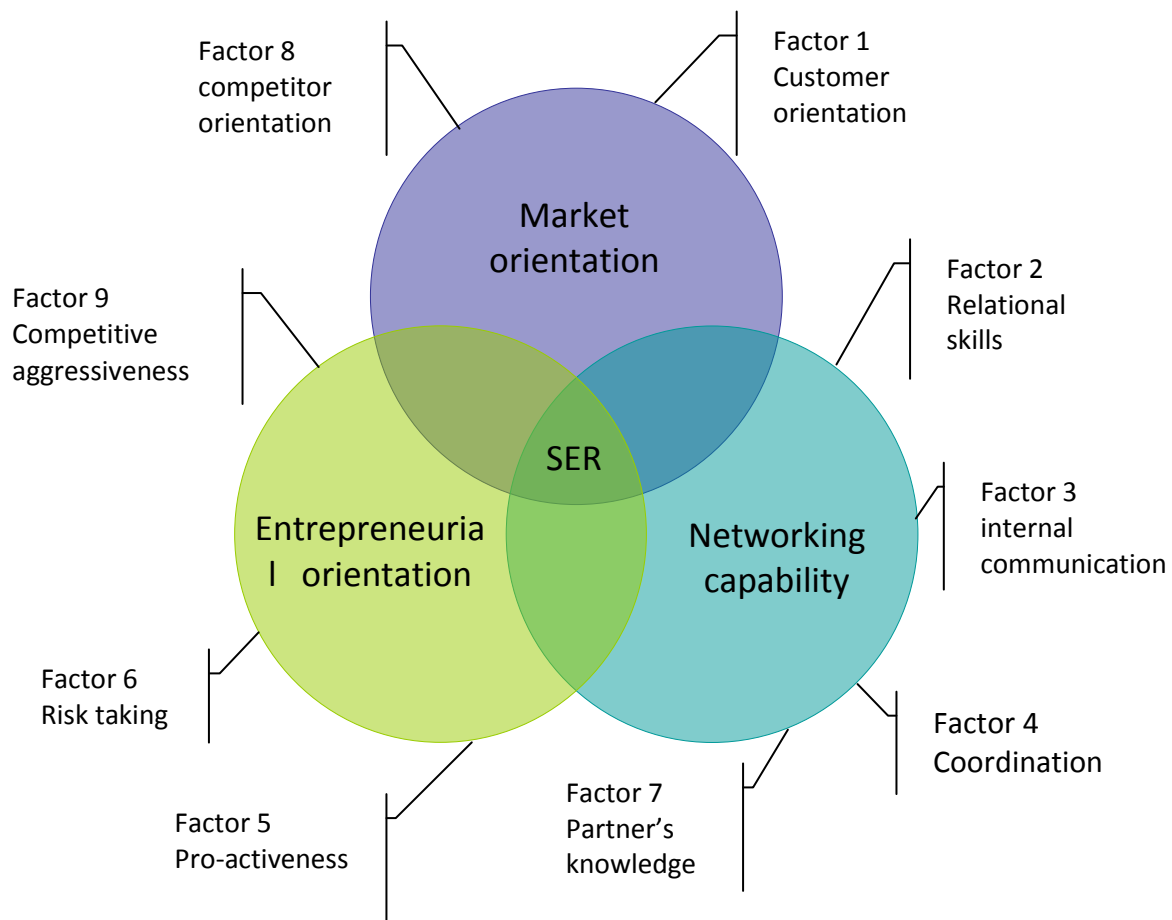
Figure 6.3:   Names of extracted factors linked to the corresponding constructs

Based on the literature, the nine (9) factors were allocated in the corresponding constructs namely; market orientation (Narver & Slater, 1990:21), entrepreneurial orientation (Lumpkin & Dess, 1996:136), and networking capability (Kale *et al.,* 2000:221) (See Figure 6.3). In view of the fact that the nine factors are extracted, it does not ensure that they measure a common construct. It was from this context, the first research question was

advanced on whether the nine factors collectively measures strategic entrepreneurial response (SER). In response to this question a higher order factor analysis was performed and the findings are presented in the next section.

6.2.2.5   Higher order factor analysis

The nine (9) factors were further subjected to a higher order (second order) factor analysis. Table 6.19 indicates that all factors converged into one component, which implies that they measure a single (common) construct that is a strategic entrepreneurial response (SER).

Table 6.19:   Component matrix for second order factor analysis

Factors	Loadings
Factor 8 Competitor orientation	0.715
Factor 5 Pro-activeness	-0.619
Factor 6 Risk taking	-0.684
Factor 7 Partner's knowledge	0.666
Factor 1 Customer orientation	0.606
Factor 4 Coordination	-0.570
Factor 2 Relational skills	0.569
Factor 9 Competitive aggressiveness	0.536
Factor 3 Internal communication	-

Source: Survey

Since the nine factors converged to a single component, for the purpose of this study as from this point onwards, they will be referred to as individual dimensions of the strategic entrepreneurial response (SER) and the three constructs, namely: market orientation, entrepreneurial orientation and networking capability in which the nine factors were allocated (See Figure 6.3) will be referred to as the composite dimensions of the SER. In this case the strategic entrepreneurial response (SER) has nine individual dimensions or three composite dimensions.

6.2.2.6   Reliability analysis

The reliability analysis was done to test the credibility of data. In this case the Cronbach's alpha was computed to examine the internal reliability (See Equation 6.2). Table 6.20 presents the Cronbach's alpha values and the number of items converged for each factor.

$$\text{Cronbach's alpha } (\alpha) = \frac{N^2 \overline{Cov}}{\sum S^2_{item} \pm \sum Cov_{item}} \dots\dots\dots\dots\dots\dots\dots(\text{Equation 6.2})$$

Where:

- N^2 = square multiple of the number of items
- $\overline{Cov}$ = average covariance between items
- $\sum S^2_{item}$ = sum of all item variances
- $\sum Cov_{item}$ = sum of all item covariances

Table 6.20:   Item analysis for rotated factors

Factors	Factors								
	1	2	3	4	5	6	7	8	9
Number of items converged	4	4	4	4	4	4	4	7	5
% variance explained (VP)	10.22	8.36	7.84	7.71	7.35	7.05	6.96	6.61	6.07
Mean	4.100	3.890	3.705	3.768	3.601	3.284	3.732	3.745	3.684
Variance									
Standard deviation									
Cronbach's alpha	0.899	0.932	0.920	0.874	0.844	0.827	0.891	0.805	0.897
Eigenvalue	4.699	3.846	3.605	3.547	3.382	3.242	3.204	3.039	2.790
Squared multiple correlation	0.928	0.889	0.880	0.944	0.846	0.828	0.852	0.857	0.879
Canonical correlation	0.992	0.956	0.955	0.943	0.903	0.889	0.860	0.848	0.825

Source: Survey

The summary of the results indicate that factor one to seven contains four items, factor eight converged seven items and factor nine converged five items. The Cronbach's alpha values for the nine factors range between 0.805 and 0.932. According to Bryman and Bell (2007:164), Cronbach's alpha values above 0.8 represent an acceptable level of internal reliability. In this view, the higher Cronbach's alpha values recorded in this study denote that the measurement tool measured well the concept of strategic entrepreneurial response (SER).

6.2.3 Pearson Correlation

The relationship amongst test variables was examined using the Pearson correlation. Preliminary analyses were performed and SME measures namely profit, ROA, and ROI were natural logs transformed to ensure no violation of assumptions of normality, linearity, and homoscedasticity. Table 6.21 give summary of factor correlation matrix that contains correlation co-efficients among individual and composite dimensions of the strategic entrepreneurial response, SME performance measures, LnProfit, LnROA and LnROI.

Amongst the individual dimensions of the strategic entrepreneurial response, customer orientation recorded the strongest significant positive correlation with SME performance measures namely LnProfit (r = 0.669**), LnROA (r = 0.540**), and LnROI (r = 0.517**) followed by competitor orientation that recorded significant positive correlation with LnProfit (r = 0.632**), LnROA (r = 0.471**), and (r = 0.470**). Consistently, other individual dimensions of SER recorded significant correlation with LnProfit, LnROA, and LnROI except relational skills that recorded nosignificant correlation with LnROI. However three individual dimensions of the strategic entrepreneurial response, namely: coordination, risk taking and competitive aggressiveness recorded significant negative correlations with the three measures of SME performance. With regard to the composite dimensions of the strategic entrepreneurial response, all three dimensions recorded significant positive correlation, with the highest correlation recorded in the market orientation with SME performance measures: LnProfit (r = 0.779**), LnROA (r = 0.605**) and LnROI (r = 0.591**) (See Table 6.21).

Table 6.21:   Correlation matrix for extracted factors and SME performance measures

Items	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Customer orientation	1													
Relational skills	0.215(**)	1												
Internal communication	0.168(**)	0.159(**)	1											
Coordination	-0.262(**)	-0.267(**)	-0.222(**)	1										
Pro-activeness	0.313(**)	-0.305(**)	-0.244(**)	0.313(**)	1									
Risk taking	-0.349(**)	-0.356(**)	-0.202(**)	0.257(**)	0.424(**)	1								
Partners knowledge	0.320(**)	0.328(**)	0.205(**)	-0.353(**)	-0.355(**)	-0.353(**)	1							
Competitor orientation	0.418(**)	0.316(**)	0.159(**)	-0.310(**)	0.443(**)	-0.398(**)	0.382(**)	1						
Competitive aggressive	0.238(**)	0.191(**)	0.101	-0.187(**)	-0.323(**)	-0.306(**)	0.283(**)	0.343(**)	1					
LnPROFIT	0.669(**)	0.322(**)	0.323(**)	-0.406(**)	-0.536(**)	-0.618(**)	0.485(**)	0.632(**)	0.489(**)	1				
LnROA	0.540(**)	0.121(*)	0.256(**)	-0.296(**)	-0.401(**)	-0.431(**)	0.329(**)	0.471(**)	0.358(**)	0.765(**)	1			
LnROI	0.517(**)	0.112	0.261(**)	-0.280(**)	-0.375(**)	-0.393(**)	0.298(**)	0.470(**)	0.348(**)	0.731(**)	0.917(**)	1		
Market orientation	0.842(**)	0.316(**)	0.194(**)	-0.339(**)	-0.449(**)	-0.443(**)	0.417(**)	0.842(**)	0.345(**)	0.779(**)	0.605(**)	0.591(**)	1	
Entrepreneurial orientation	0.263(**)	0.292(**)	0.214(**)	-0.237(**)	-0.684(**)	-0.695(**)	0.264(**)	0.309(**)	-0.231(**)	0.408(**)	0.291(**)	0.257(**)	0.340(**)	1
Networking capability	0.230(**)	0.634(**)	0.594(**)	0.082	-0.308(**)	-0.340(**)	0.613(**)	0.285(**)	0.201(**)	0.374(**)	0.213(**)	0.203(**)	0.305(**)	0.277(**)

** Correlation is significant at the 0.01 level (2-tailed).   Source: Survey
* Correlation is significant at the 0.05 level (2-tailed).

The pro-activeness recorded positive correlation with customer (r = 0.313**), competitor orientation (r = 0.443**), risk taking (r = 0.424**) and coordination (r = 0.313**). It also recorded negative correlation with partners knowledge (r = - 0.355**), competitive aggressiveness (r = - 0.323**), internal communication (r = - 0.244**) and relational skills (r = - 0.305**). The fact that these correlations exist tells us that the constructs measured are inter-related. This observation is further confirmed by the squared multiple correlations amongst factors presented in Table 6.20 that indicate the R-Matrix is not an identity matrix since all squared multiple correlations ranged between 0.828 to 0.944, which are below one (1) (Field, 2009:660). In view of this, it is reasonable not to assume independence between factors. Therefore, the oblique rotated solution is more meaningful in this case.

The next section compares the means of individual dimensions of SER if they differ along the demographical variables namely gender, age and level of education of owners/managers, and the age of business and type of industry.

6.2.4 Multiway Analysis Of Variance

The multiway analysis of variance was performed to compare means of the demographic variables namely gender, age of respondents, level of education of owners/managers, age of business and type of industry and examines if the individual dimensions of strategic entrepreneurial response differs along the demographic variables. The results of the analysis are presented in a series of tables below.

Table 6.22:   Multiway ANOVA for Customer orientation (Factor 1)

Demographical variables/control variables	DF	Factor 1: Customer orientation			
		Type III SS	Mean Square	F Value	Pr > F
Gender of respondent	1	0.19033509	0.19033509	0.46	0.4960
Age of respondent	3	9.48025402	3.16008467	7.71	<.0001
Level of education of owner/manager	3	13.81619004	4.60539668	11.24	<.0001
Age of the business/company	1	0.07601926	0.07601926	0.19	0.6670
Industrial sector/type of industry	2	5.45759687	2.72879843	6.66	0.0015

Source: Survey

Table 6.22 indicates that customer orientation (Factor 1) differ significantly in terms of age of owner/managers, level of education, and industrial sector at p < 0.01. The findings imply that the level of customer orientation among business owner/managers is influenced by

the type of industry they operate, age of owner/manager, and level of education of owners/managers.

Table 6.23:   Multiway ANOVA for relational skills (Factor 2)

Demographical variables/control variables	Factor 2: Relational skills				
	DF	Type III SS	Mean Square	F Value	Pr > F
Gender of respondent	1	0.79530480	0.79530480	1.05	0.3073
Age of respondent	3	19.39761586	6.46587195	8.50	<.0001
Level of education of owner/manager	3	13.83033825	4.61011275	6.06	0.0005
Age of the business/company	1	0.00030266	0.00030266	0.00	0.9841
Industrial sector/type of industry	2	1.86625920	0.93312960	1.23	0.2947

Source: Survey

Table 6.23 indicates that relational skills differed significantly along age and level of education at $p < 0.01$. This is an indication that the relational skills among owner/managers of firms are influenced by their age and level of education of owner/manager.

Table 6.24:   Multiway ANOVA for internal communication (Factor 3)

Demographical variables/control variables	Factor 3: Internal communication				
	DF	Type III SS	Mean Square	F Value	Pr > F
Gender of respondent	1	0.30761616	0.30761616	0.37	0.5462
Age of respondent	3	3.13729358	1.04576453	1.24	0.2950
Level of education of owner/manager	3	11.32770245	3.77590082	4.48	0.0043
Age of the business/company	1	0.17348685	0.17348685	0.21	0.6503
Industrial sector/type of industry	2	1.69400688	0.84700344	1.01	0.3672

Source: Survey

The role of gender, age of owners/managers, level of education, age of business and type of industrial sector on internal communication in the firm were examined. Table 6.24 presents summaries of the results that indicate that the internal communication within a firm differed significantly along the level of education at $p < 0.01$. This finding implies that the internal communication of a firm is likely to be influenced by the level of education of the owners/managers.

Table 6.25:   Multiway ANOVA for coordination (Factor 4)

Demographical variables / control variables	Factor 4: Coordination				
	DF	Type III SS	Mean Square	F Value	Pr > F
Gender of respondent	1	0.43826224	0.43826224	0.63	0.4294
Age of respondent	3	19.34050256	6.44683419	9.21	<.0001
Level of education of owner/manager	3	8.35507102	2.78502367	3.98	0.0084
Age of the business/company	1	0.26400700	0.26400700	0.38	0.5396
Industrial sector/type of industry	2	0.78811859	0.39405929	0.56	0.5701

Source: Survey

The summary of results presented in Table 6.25 indicates that the coordination of business activities within and beyond a firm's boundaries differed significantly along the age and level of education of the owner/managers at p < 0.01. In other words, the age and level of education of the owners/managers has an influence on the ability to coordinate the business activities.

Table 6.26:   Multiway ANOVA for pro-activeness (Factor 5)

Demographical variables / control variables	Factor 5: Pro-activeness				
	DF	Type III SS	Mean Square	F Value	Pr > F
Gender of respondent	1	0.74986298	0.74986298	0.85	0.3577
Age of respondent	3	32.86920644	10.95640215	12.40	<.0001
Level of education of owner/manager	3	22.23302412	7.41100804	8.39	<.0001
Age of the business/company	1	0.56626377	0.56626377	0.64	0.4240
Industrial sector/type of industry	2	0.57907141	0.28953571	0.33	0.7208

Source: Survey

Table 6.26 indicates that the pro-activeness of a firm towards products / service delivery as a strategy to attain competitive edge of the firm differed significantly along the age and level of education of the owners/managers at p < 0.01. The findings imply that the pro-activeness of the firm is influenced by the age and level of education of the owners/managers.

Table 6.27:   Multiway ANOVA for risk taking (Factor 6)

Demographical variables / control variables	DF	Type III SS	Mean Square	F Value	Pr > F
			Factor 6: Risk taking		
Gender of respondent	1	2.39777056	2.39777056	3.00	0.0844
Age of respondent	3	15.30401451	5.10133817	6.38	0.0003
Level of education of owner/manager	3	40.93991310	13.64663770	17.07	<.0001
Age of the business/company	1	0.18726433	0.18726433	0.23	0.6288
Industrial sector/type of industry	2	1.28284140	0.64142070	0.80	0.4493

Source: Survey

The findings summarised in Table 6.27 shows that the risk taking of the firm differed significantly with the age and level of the education of the owners/managers at p < 0.01. This is an indication that the firm's decision to take risks is likely to be influenced by the age and level of education of the owners/managers.

Table 6.28:   Multiway ANOVA for partners' knowledge (Factor 7)

Demographical variables/control variables	DF	Type III SS	Mean Square	F Value	Pr > F
			Factor 7: Partners knowledge		
Gender of respondent	1	1.09476409	1.09476409	1.46	0.2275
Age of respondent	3	16.45179023	5.48393008	7.33	<.0001
Level of education of owner/manager	3	15.43856718	5.14618906	6.88	0.0002
Age of the business/company	1	0.31331399	0.31331399	0.42	0.5182
Industrial sector/type of industry	2	2.22936254	1.11468127	1.49	0.2273

Source: Survey

Table 6.28 indicates that partner's knowledge is crucial for networking capability differed significantly along the age and level of education of the owner/manager of the firm at p < 0.01. The finding hints that the firm's ability to understand its partners' potential, strategy, products, market, strength and weaknesses is likely to be influenced by the age and level of education of the owners/managers.

Table 6.29: Multiway ANOVA for competitor orientation (Factor 8)

Demographical variables/control variables	DF	Type III SS	Mean Square	F Value	Pr > F
			Factor 8: Competitor orientation		
Gender of respondent	1	0.28486613	0.28486613	0.50	0.4820
Age of respondent	3	20.46176580	6.82058860	11.87	<.0001
Level of education of owner/manager	3	15.30548815	5.10182938	8.88	<.0001
Age of the business/company	1	0.16459507	0.16459507	0.29	0.5930
Industrial sector/type of industry	2	1.68469343	0.84234672	1.47	0.2327

Source: Survey

Table 6.29 presents findings in testing the relationship between the competitor orientation of the firm and a set of independent variables namely; gender of respondent, age of respondent, level of education, age of business, and industrial sector. The results show that the competitor orientation of the firm differed significantly along the age and level of education among business owner/managers at $p < 0.01$. In simple terms this can be interpreted as the ability of firm to be oriented to competitors is influenced by the age and level of education of the owner/manager.

Table 6.30: Multiway ANOVA for competitive aggressiveness (Factor 9)

Demographical variables/control variables	DF	Type III SS	Mean Square	F Value	Pr > F
			Factor 9: Comptitive aggressiveness		
Gender of respondent	1	0.14610727	0.14610727	0.20	0.6540
Age of respondent	3	23.41558838	7.80519613	10.75	<.0001
Level of education of owner/manager	3	38.40130882	12.80043627	17.64	<.0001
Age of the business/company	1	1.79499481	1.79499481	2.47	0.1169
Industrial sector/type of industry	2	4.69301310	2.34650655	3.23	0.0409

Source: Survey

Table 6.30 indicates that the competitive aggressiveness of the firm differed significantly along the age, level of education and industrial sector at $p < 0.01$. The results imply that the competitive aggressiveness of the firm can be influenced by the age, level of education of the owner/manager and the industrial sector in which the business is operating.

Since the ANOVA is an Omnibus analysis, it can only tell if there is a significant difference among means of test groups, but it can not tell which groups differs significantly (Pallant, 2007:242). In this view, it was considered necessary to examine the findings so that it is clear which groups differ significantly in the analysis of variance. To accomplish this, all

means, which differed significantly in the ANOVA, were subjected to the post hoc test specifically the Duncan's Multiple Range Test (DMRT) in order to tell exactly which category of group means are significantly different at $p < 0.05$. The results are presented in the subsequent sections.

6.2.4.1   Effects of age on dimensions of strategic entrepreneurial response

Table 6.31 shows that the age group 20-29 years differed significantly from those of the age groups between 30-39 years, 40-49 years and 50 years and above. However, the age group 30-39 years and 40-49 years were not significantly different, but they differed significantly with those of the age groups 50 years and above in terms of customer orientation, relational skills, coordination, pro-activeness, risk taking, competitors orientation, and competitive aggressiveness. Scanning the results presented in Table 6.31, it is clear that age group 30-39 years and 40-49 years recorded the highest mean in customer orientation (M=4.257, $p < 0.05$), relational skills (M=4.106, $p < 0.05$), coordination (M=3.952, $p < 0.05$), pro-activess (M=3.875, $p < 0.05$), risk taking (M=3.486, $p < 0.05$), competitor orientation (M=3.924, $p < 0.05$) and competitive aggressiveness (M=3.886, $p < 0.05$). These findings, suggest that owners/managers between 30 to 49 years of age are actively engaged in customer relationship, relational skills, coordination, pro-activeness, risk taking, competitor knowledge and competitive aggressiveness.

Looking at the age group 20-29 years, it differed significantly from the other groups 30-39 years, 40-49 years and 50 years and above which are not significantly different in terms of partner's knowledge. With the highest mean (M=3.936, $p < 0.05$) recorded for the age group 30-39 years, it implies that owners/managers within the age group above 29 years are likely to be aware of partners' knowledge before engaging in networking activities than the younger owner/managers in the age between 20-29 years.

Table 6.31:   Comparison of means for age of respondents to show strength of difference

Factors		Age groups			
		20-29 years	30-39 years	40-49 years	50 years <
Factor 1 Customer orientation	Mean	3.457 [c]	4.257 [a]	4.219 [a]	3.963 [b]
	SD	0.938	0.625	0.594	0.797
Factor 2 Relational skills	Mean	3.086 [c]	4.026 [a]	4.106 [a]	3.697 [b]
	SD	1.113	0.889	0.736	1.025
Factor 3 Internal communication	Mean	3.471 [b]	3.874 [a]	3.678 [ba]	3.564 [ba]
	SD	1.034	0.870	0.971	0.930
Factor 4 Coordination	Mean	3.086 [c]	3.950 [a]	3.952 [a]	3.463 [b]
	SD	0.996	0.787	0.782	0.985
Factor 5 Pro-activeness	Mean	2.529 [c]	3.793 [a]	3.875 [a]	3.367 [b]
	SD	1.076	0.931	0.914	1.128
Factor 6 Risk taking	Mean	2.450 [c]	3.464 [a]	3.486 [a]	3.059 [b]
	SD	0.880	0.970	0.993	1.055
Factor 7 Partners knowledge	Mean	2.914 [b]	3.936 [a]	3.846 [a]	3.638 [a]
	SD	1.041	0.853	0.880	0.907
Factor 8 Competitors orientation	Mean	2.882 [c]	3.921 [a]	3.924 [a]	3.599 [b]
	SD	0.943	0.758	0.747	0.853
Factor 9 Competitive aggressiveness	Mean	2.674 [c]	3.886 [a]	3.881 [a]	3.549 [b]
	SD	1.193	0.843	0.874	1.056

All means (horizontal) with different superscript letters are significantly different at p < 0.05

Examining internal communication, as an individual dimension of SER, yields interesting results. The age group of 20-29 years differed significant with the age group of 30-39 years and no significant differences were found in the 40 - 49 years and 50 years and above age groups. Similarly, the age group of 30 - 39 years does not differ significantly with the age group of 40-49 years and 50 years and above. The highest mean (M=3.874, p<0.05) recorded for the age group of 30-39 years, implies that owners/managers in this age category are much more engaged in internal communication which involves exchange of strategic information and capabilities within the firm. As the firm owners/managers grow older at the age of 40 years and above, the level of internal communication is not as much different from younger owners/managers of the age between 20 – 29 years old.

6.2.4.2 Effects of education on dimensions of strategic entrepreneurial response

Table 6.32 indicates that owners/managers with the level of primary education or lower, and secondary education are not significantly different in terms of customer orientation, relational skills, internal communication, coordination, pro-activeness, risk taking, partner's knowledge, competitor's knowledge and competitive aggressiveness. Similarly, certificate education, diploma and graduate education levels registered no significant difference in all aspects mentioned above. However, the lower level of education such as primary education or lower and secondary education differed significantly at p< 0.05 with the higher level of education such as certificate, diploma and graduate levels in all aspects except for secondary education level and certificate education level, which have no significant difference in terms of internal communication.

Table 6.32: Comparison of means for level of education of respondents to show strength of difference

Factors		Level of education			
		Primary or below	Secondary	Certificate	Diploma & Graduate
Factor 1 Customer orientation	Mean	3.777 [b]	3.869 [b]	4.375 [a]	4.404 [a]
	SD	0.700	0.783	0.590	0.599
Factor 2 Relational skills	Mean	3.700 [b]	3.567 [b]	4.246 [a]	4.115 [a]
	SD	1.079	1.098	0.628	0.679
Factor 3 Internal communication	Mean	3.454 [c]	3.526 [bc]	3.827 [ba]	4.016 [a]
	SD	1.013	1.059	0.883	0.665
Factor 4 Coordination	Mean	3.596 [b]	3.515 [b]	3.992 [a]	4.013 [a]
	SD	1.033	1.017	0.755	0.595
Factor 5 Pro-activeness	Mean	3.235 [b]	3.230 [b]	4.073 [a]	3.942 [a]
	SD	1.176	1.144	0.732	0.827
Factor 6 Risk taking	Mean	2.696 [b]	2.939 [b]	3.810 [a]	3.737 [a]
	SD	0.906	1.037	0.802	0.897
Factor 7 Partners knowledge	Mean	3.508 [b]	3.395 [b]	4.129 [a]	3.978 [a]
	SD	1.157	1.076	0.585	0.595
Factor 8 Competitor orientation	Mean	3.347 [b]	3.523 [b]	4.039 [a]	4.088 [a]
	SD	1.041	0.892	0.558	0.619
Factor 9 Competitive aggressiveness	Mean	3.252 [b]	3.237 [b]	4.090 [a]	4.213 [a]
	SD	1.086	1.148	0.522	0.643

All means (horizontal) with different superscript letters are significantly different at P< 0.05

Further examination of the findings reveal that higher levels of education, such as certificate, diploma and graduate levels, have higher mean in customer orientation (M=4.404, $p<0.05$), relational skills (M=4.246, $p<0.05$), internal communication (M=4.016, $p<0.05$), coordination (M=4.013, $p<0.05$), pro-activeness (M=4.073, $p<0.05$), risk taking (M=3.810, $p<0.05$), partners knowledge (M=4.129, $p<0.05$), competitor orientation (M=4.088, $p<0.05$) and competitive aggressiveness (M=4.213, $p<0.05$). These findings hint that owner/managers with at least a certificate level of education are more customer oriented, pro-active, and are risk takers, well equipped with relational skills, good on coordination, partners' knowledge, competitor's knowledge and are more competitive aggressive than those with a secondary level of education and lower.

6.2.4.3   Effects of type of industry on dimensions of strategic entrepreneurial response

Table 6.33 presents results on comparison of means for three industrial sectors namely manufacturing/processing, services and retail, to show strength of difference in terms of the individual dimensions of the strategic entrepreneurial response. The findings indicate that the service sector differed significantly at $p< 0.05$ with retail sectors, in terms of customer orientation, relational skills, internal communication, risk taking, partners' knowledge, competitors' knowledge and competitive aggressiveness and recorded no significant difference with the manufacturing/processing sector in terms of all aspects, except customer orientation that differed significantly at $p< 0.05$.

Table 6.33: Comparison of means for industrial sectors to show strength of difference

Factors		Industrial sector		
		Manufacturing	Services	Retail
Factor 1 Customer orientation	Mean	4.024[b]	4.315[a]	3.894[b]
	SD	0.837	0.607	0.709
Factor 2 Relational skills	Mean	3.835[ba]	4.026[a]	3.761[b]
	SD	0.958	0.802	1.085
Factor 3 Internal communication	Mean	3.715[ba]	3.832[a]	3.533[b]
	SD	0.886	0.896	1.034
Factor 4 Coordination	Mean	3.744[a]	3.879[a]	3.647[a]
	SD	0.879	0.832	0.984
Factor 5 Pro-activeness	Mean	3.582[a]	3.716[a]	3.472[a]
	SD	1.062	1.021	1.116
Factor 6 Risk taking	Mean	3.350[a]	3.431[a]	3.033[b]
	SD	1.032	1.019	1.027
Factor 7 Partners knowledge	Mean	3.662[ba]	3.877[a]	3.614[b]
	SD	0.861	0.943	1.012
Factor 8 Competitors orientation	Mean	3.731[ba]	3.903[a]	3.556[b]
	SD	0.833	0.822	0.902
Factor 9 Competitive aggressiveness	Mean	3.673[a]	3.902[a]	3.413[b]
	SD	1.093	0.915	0.996

All means (horizontal) with different superscript letters are significantly different at P< 0.05

From the results the service sector recorded highest and significant means on customer orientation (M = 4.315, p< 0.05) compare to the manufacturing (M = 4.024, p< 0.05) and retail industries (M = 3.894, p< 0.05). These findings indicate that the service sector is much more oriented to customers compared to other two sectors under investigation. Similarly, the service and manufacturing sectors with higher means (but not with a significant difference between them) on risk taking (M = 3.431, p< 0.05) and competitive aggressiveness (M = 3.902, p< 0.05) are much more risk takers and competitive aggressive compared to the retail sector, which recorded low means on these aspects (Table 6.33).

On the other hand, the study recorded a significant difference between manufacturing/processing and retail sectors at p< 0.05 in terms of risk taking and competitive aggressiveness, while no significant difference in customer orientation,

relational skills, internal communication, coordination, pro-activeness, partner's knowledge, and competitor's knowledge was recorded (Table 6.33).

6.2.5 Multiple Regression Analysis

The multiple regression analysis is amongst multi-variate techniques that are well acknowledged to have predictive power among variables to examine the relationship between independent variables and dependent variables (Pallant, 2011:148; Field, 2009:198; Tabachnick & Fidell, 2007:118). In this study the multiple regression technique was performed to test the advanced hypotheses, which guided this study.

- firstly, it examined the relationship between SME performance and individual dimensions of SER [hypotheses Ha1(a) to Ha1(i)],

- secondly, it examined the relationship between composite dimensions of strategic entrepreneurial response and SME performance [hypotheses Ha2(a) to Ha2(c)],

- thirdly, it examined the amount of variance accounted for in SME performance by the composite dimensions of SER [hypothesis Ha3(a) to Ha3(c)],

- fourthly, it examined the amount of variance explained in SME performance by the interaction of the composite dimensions of the SER [hypothesis Ha4(a) to Ha4(b)],

- to control the influence of demographic variables namely the firm size, type of industry, and level of education of owners/managers in the amount of variance explained in SME performance by the composite dimension of SER and be able to draw conclusions to whether the amount of variance explained is or is not influenced by the firm's size, type of industry and the level of education of the owner/manager [hypothesis Ha5(a) to Ha5(c)].

However, the credibility of the end results mainly depends on the compliance of the regression model on the set of assumptions. From this context, prior to the multiple regression analysis, data were tested for the compliance of assumptions and transformations were made whenever thought necessary to ensure compliance to the regression assumptions.

6.2.5.1   Testing for regression assumptions

The assumptions that were considered crucial and tested were: normality, linearity, independent residuals (errors), homoscedasticity, outliers, and multicollinearity (Field, 2009:220; Pallant, 2011:151; Tabachnick & Fidell, 2007:161).

1:   Normality

As indicated before, the analysis checked for normality of the test variables (profit, return on asset and return on investment). According to Field (2009:221), the assumption for normality is crucial if findings are to be generalised to the entire population, which is the case in this study. The assumption of normality implies that the differences between the model and the observed data are most frequently zero or very close to zero and that the differences much greater than zero, happen only occasionally. Gupta (1999:7-13) and Pallant (2011:63) suggest several methods to determine the distribution type. Such methods include P-P and Q-Q, which are visual tests, but they are not sufficient because they do not provide a mathematical hypothesis test that the hypothesis' "variables distribution" can be accepted as normal. For this reason, a formal test for the distribution type such as the "Kolmogorov-Smirnov test for normality, became necessary.

In light of the above, a formal test for the distribution type was performed whereby a one sample Kolmogorov-Smirnov test for normality was employed. The Kolmogorov-Smirnov test whether the distribution type for the test variable, deviate significantly from normal (Pallant, 2011:63). Table 6.34 presents a summary of results for the formal test for the type of distribution.

Table 6.34: Distribution test for normality of test variables

Parameters		Non transformed test variables		
		PROFIT	ROA	ROI
N		290	290	290
Normal Parameters(a, b)	Mean	39.9007	7.3860	4.5886
	Std. Deviation	34.52881	9.25689	5.79967
Most Extreme Differences	Absolute	0.173	.247	0.230
	Positive	0.173	.247	0.230
	Negative	-0.130	-.205	-0.200
Kolmogorov-Smirnov Z		2.946	4.203	3.923
Asymp. Sig. (2-tailed)		0.000	0.000	0.000

a Test distribution is Normal.
b Calculated from data

Source: Survey

The results indicate that the test variables namely; profit, return on asset (ROA) and return on investment (ROI) are significantly different at $p< 0.000$ which implies that they are significantly different from normal distribution. In other words, the test variables are not normally distributed. In light of these findings, transformation considered crucial to attain normal distribution of data which will subsequently allow the generalisation of findings.

2: Testing for outliers

The case-wise diagnostic was performed in two phases, before transformation and after transformation of data to test for presence of outliers in data. This was performed with the understanding that regression is sensitive to outliers. Table 6.35 presents results on case-wise diagnostic with values of standard residual at both phases; before and after transformation of data.

Table 6.35:   Case-wise diagnostic before and after transformation

Case No.	Standard residual before transformation			Standard residual after transformation		
	Profit	ROA	ROI	LnProfit	LnROA	LnROI
22	5.097	-	-	-	-	-
77	-	-	-	-	-	-4.100
124	-	-	-	3.531	-	-
128	-	-	4.397	-	-	-
148	4.655	9.179	7.262	-	-	-
152	-	4.285	4.157	-	-	-
153	-	4.207	6.657	-	-	-
193	4.323	4.339	4.134	-	-	-
197	5.072	-	-	-	-	-
238	-	3.444	4.100	-	4.835	4.989
239	-	3.353	3.359	-	3.405	-
264	3.557	-	-	-	-	-
Total cases	5(1.72%)	6(2.06%)	7(2.41%)	1(0.34%)	2(0.69%)	2(0.69%)

Source: Survey

The findings indicate that before transformation there were 5(1.72%), 6(2.06%), and 7(2.41%) cases in Profit, ROA and ROI, respectively with values above 3.3 or below -3.3, of which according to Fields (2009:216) and Tabachnick and Fidell (2007:128) were regarded as outliers. However, after transformations only 1(0.34%), 2(0.69%), and 2(0.69%) of cases in LnProfit, logROA and logROI, respectively recorded values above 3.3 or less than -3.3. Palant (2007:158) suggests that the value of less than 1 percent standard residual is acceptable. Since all values of standard residues after transformation were quite well below the cut-off point of 1 percent (Table 6.35), it implies that the transformation reduced the amount of outliers to an acceptable level and it was no longer a threat in this study.

3:      Test for independent errors

The Durbin Watson test was requested to test whether the assumption of independent errors was met by the current data. Field (2009:120) suggests that for any two observations, the residual terms should be independent or uncorrelated. The Durbin Watson test for serial correlation between errors, especially tests whether the adjacent

residuals are correlated. According to Field (2009:220), the test statistics can vary between 0 and 4 with a value of 2 meaning that the residuals are uncorrelated, values less than 1 and greater than 3 should raise concern and values close to 2 are better. In view of this, Table 6.36 presents results on the Durbin Watson test before and after transformation.

Table 6.36:   Independent errors test

	Durbin Watson values	
	Before transformation	After transformation
Natural log Profit (LnProfit)	1.842	1.685
Natural log return on asset (LnROA)	1.859	1.732
Natural log return on investment (LnROI)	1.682	1.847

Source: Survey

The results in Table 6.36 extracted from sequential multiple regression models presents the Durbin Watson values before transformation in profit (1.842), ROA (1.859), and ROI (1.682) and after transformation LnProfit (1.685), LnROA (1.732) and LnROI (1.847) regressed against the composite dimensions of SER, namely: market orientation, entrepreneurial orientation and networking capability. Findings indicate that there was a slight decrease in Durbin Watson values for LnProfit and LnROA and a slight increase in LnROI after transformation. These findings indicate that transformation did not add much value in terms of the Durbin Watson values because both values before and after transformation were within acceptable range. These values are by far not below 1 and not above 3, but were close to 2. In this view, the assumption for independent errors has certainly been met (Field, 2009:220).

6.2.5.2   Remedy for compliance to regression assumptions

Failure of the first attempt of the test variables (Profit, ROA and ROI), to comply with the normality, prompted a need to subject test variables into natural logarithm (Ln) transformation. Table 6.37 presents results for the formal test of one sample the Kolmogorov Smirnov test for normality of transformed data, to test whether the transformed data still deviate significantly from normal distribution. According to Pallant

(2011:63) the Kolmogorov Smirnov test used to test the hypothesis, that the test variables are not significantly different from normal.

Table 6.37:   Transformed data for distribution test

Parameters		Transformed test variables (Ln)		
		LnProfit	LnROA	LnROI
N		282	282	282
Normal Parameters(a, b)	Mean	3.4553	1.6321	1.1565
	Std. Deviation	0.72312	0.84329	0.85168
Most Extreme Differences	Absolute	0.047	0.070	0.071
	Positive	0.038	0.070	0.071
	Negative	-0.047	-0.035	-0.061
Kolmogorov-Smirnov Z		0.791	1.169	1.192
Asymp. Sig. (2-tailed)		0.558	0.130	0.117

a Test distribution is Normal.   Source: Survey
b Calculated from data.

Table 6.37 shows that all three test variables (LnProfit, LnROA, and LnROI) are not significantly different from normal distribution a $p<0.05$, which suggest that all test variables after transformation are normally distributed. The normality of the variables allows generalisation of the findings beyond the collected sample, which is among the objectives of this study (Field, 2009:221).

4:      Assessing for multi-collinearity

Referring to the impact of multi-collinearity in the credibility of the results of the multiple regressions, it was considered important to test whether there is collinearity in the data. In this case, the analysis requested a variance inflation factor (VIF) and Tolerance, which are formal tests for multi-collinearity (Pallant, 2011:158). Various scholars provide guidelines that can be applied to test collinearity. Pallant (2007:156) suggests that if the largest VIF is greater than 10, there is a cause for concern, indicating presence of multi-collinearity but Bowerman & O'Connell (1990) in Field (2009:224) pointed out further that if the average VIF is substantially greater than 1, the regression may be biased. On the other hand, Menard (1995) in Fields (2009:224) and Pallant (2007:156) indicate that the Tolerance below 0.1 pose a serious problem and below 0.2 indicates a potential problem.

Table 6.38: Collinearity statistics

Model	Collinearity statistics	
	Tolerance	Average VIF
Natural log return on profit (LnProfit)	0.751	1.332
Natural log return on asset (LnROA)	0.804	1.244
Natural log return on investment (LnROI)	0.806	1.240

Source: Survey

In view of the above, Table 6.38 presents collinearity statistics; average variance inflation factor (VIF) and Tolerance. According to Field (2009:242), to calculate the average VIF simply add the VIF values for each predictor and divide it by the number of predictors (k) (see Equation 6.2). The tolerance is simply a reciprocal of the variance inflation factor (1 / VIF) (See Equation 6.4)

$$\overline{VIF} = \frac{\sum_{i=1} VIF_i}{k} \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots(Equation\ 6.3)$$

Where:

- $\overline{VIF}$ is the VIF values for each predictor.
- k is the number of predictors

$$Tolerance = \frac{1}{VIF} \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots(Equation\ 6.4)$$

The findings presented in Table 6.38, indicate that the average VIF for test variables Lnprofit (1.332), LnROA (1.244) and LnROI (1.240) are quite well below 10 and are close to 1 as suggested by Field (2009:224). Consistently, the tolerance values for LnProfit (0.751), LnROA (0.804), and LnROI (0.806) are by far above 0.2 which again fall within acceptable range suggested by Menard (1995) cited by Fields (2009:224) and Pallant (2007:156). These findings suggest that neither multi-collinearity nor model biasness is a threat in these data.

Having tested compliance of data to regression assumptions, the next step was to use data to test the advanced hypotheses and acquire empirical evidence to be able to draw a conclusion.

6.2.5.3   Relationship between dimensions of SER and SME performance

This study examined the relationship between dimensions of SER and SME performance. Two categories of dimensions were established: the first category was the individual dimensions that involved the 9 factors extracted after oblique rotation, namely customer orientation, competitor orientation, pro-activeness, risk taking, competitive aggressiveness, relational skills, internal communication, coordination and partner's knowledge (Figure 6.3). The second category was the composite dimensions that involved three constructs, namely: market orientation, entrepreneurial orientation and networking capability formed by combining the individual dimensions of SER to the most related constructs (Figure 6.3). The results on the relationship between SME performance and both the Individual and composite dimensions of SER, are presented in the next sections.

Category 1:   Individual dimensions of SER and SME performance

Hypothesis 1(a) to (i) as presented in section 5.1.3.2 were intended to examine the relationship between individual dimensions of SER and SME performance. According to Pallant (2011:148), multiple regressions are amongst techniques used to explore relationships between one continuous outcome variable and a number of predictors (independent variables). Based on this fact, amongst other analysis, multiple regressions were used to test hypothesis 1(a) to 1(i), to examine the relationship between individual dimensions of SER (predictor) and SME performance (outcome variable).

Table 6.39 provides details of the parameter estimates and model parameters for individual dimensions of SER such as the F-ratio, beta (β) values and the significance of these values. The F-ratio is the ratio of mean Sum of Square of the Model (SS_M) and the residual mean square (MS_R) (see general equation 6.5). The significant F-ratio tells that the model fitted data well. The β values on the other hand, tell about the relationship between SME performance (outcome variable) and each predictor and the contribution of each predictor to the outcome variables for the case of this study, namely: SME performance, and the individual measurements of performance, namely: LnProfit, LnROA

and LnROI. According to Field (2009:238), if the β-value is positive then the predictor has a positive relationship with the outcome variable and if the β-value is negative, it has a negative relationship.

$$F = \frac{MS_M}{MS_R} \quad \text{..}(Equation\ 6.5)$$

In this case, Table 6.39 presents results on the relationship between individual dimensions of SER and overall SME performance, and individual performance measures namely LnProfit, LnROA and LnROI. The F-ratio for the first three models (model 1 – 3) were significant at p<0.01 for all outcome variables suggesting that the three models fitted data well. The overall results in model 3 show that the relationship between SME performance and individual dimension of SER namely; customer orientation (β = 0.361, p< 0.01), competitor orientation (β = 0.226, p< 0.01), pro-activeness (β = 0.105, p< 0.05), relational knowledge (β = 0.109**, p<0.01), and internal communication (β = 0.120, p< 0.01) recorded significant positive relationship while partners knowledge (β = 0.045, p< 0.695) recorded none significant positive relationship. However, SME performance recorded significant negative relationship with risk taking (β = - 0.184, p< 0.01), competitive aggressiveness (β = - 0.157, p< 0.01) and coordination (β = - 0.084, p< 0.007).

Table 6.39, model 3 presents results on the relationship between LnProfit and individual dimension of SER. These findings show that customer orientation (β = 0.361, p< 0.01), competitor orientation (β = 0.234, p< 0.01), pro-activeness (β = 0.083, p<0.05), internal communication (β = 0.106, p< 0.01), and partners knowledge (β = 0.083, p< 0.05) were significantly positive related to LnProfit. On the other hand, risk taking (β = - 0.243, p< 0.01), competitive aggressiveness (β = - 0.182, p< 0.01) and coordination (β = - 0.083, p< 0.05) recorded a significant negative relationship with LnProfit. However, relational skills are the only individual dimensions of SER that recorded non significant positive relationship with the LnProfit.

Table 6.39:   Parameter estimates (β) and model parameters for individual dimensions of SER

	Model 1				Model 2				Model 3			
	SME Perf.	LnProfit	LnROA	LnROI	SME Perf.	LnProfit	LnROA	LnROI	SME Perf.	LnpProfit	LnROA	LnROI
Individual dimensions of SER												
Market Orientation			Beta (β)				Beta (β)				Beta (β)	
Customer orientation	0.463**	0.497**	0.419**	0.393**	0.381**	0.388**	0.350**	0.336**	0.361**	0.361**	0.334**	0.321**
Competitor orientation	0.372**	0.436**	0.306**	0.315**	0.229**	0.256**	0.183**	0.208**	0.226**	0.234**	0.188**	0.216**
Entrepreneurial Orientation												
Pro-activeness					0.124**	0.138**	0.114*	0.097ns	0.085^n	0.083*	0.085ns	0.069ns
Risk taking					-0.178**	-0.261**	-0.143**	-0.108*	-0.184**	-0.243**	-0.159**	-0.125*
Competitive aggressive					-0.167**	-0.195**	-0.139**	-0.141**	-0.157**	-0.182**	-0.130**	-0.134**
Networking Capability												
Relational skills									0.109**	0.012ns	0.143**	0.136**
Internal Communication									0.120**	0.106**	0.105*	0.123**
Coordination									-0.084*	-0.087**	-0.076ns	-0.072ns
Partners knowledge									0.045^{ns}	0.083*	0.038ns	0.012ns
Standard Error (SE)												
Customer orientation	0.114	0.032	0.047	0.048	0.108	0.026	0.047	0.049	0.106	0.025	0.046	0.048
Competitor orientation	0.110	0.031	0.046	0.047	0.111	0.027	0.048	0.050	0.110	0.026	0.048	0.050
Pro-activeness					0.107	0.026	0.046	0.048	0.109	0.026	0.047	0.049
Risk taking					0.105	0.026	0.045	0.047	0.104	0.025	0.045	0.047
Competitive aggressive					0.098	0.024	0.042	0.044	0.095	0.023	0.042	0.043
Relational skills									0.099	0.024	0.043	0.045
Internal Communication									0.091	0.022	0.040	0.041
Coordination									0.099	0.024	0.043	0.045
Partners knowledge									1.103	0.025	0.045	0.047
t-statistics												
Customer orientation	9.958	12.203	8.106	7.496	8.615	11.462	6.834	6.365	8.297	11.089	6.567	6.141
Competitor orientation	8.001	10.710	5.920	6.002	4.856	7.110	3.361	3.708	4.859	6.724	3.456	3.850
Pro-activeness					2.655	3.882	2.120	1.743	1.791	2.342	1.548	1.214
Risk taking					-3.848	-7.400	-2.676	-1.966	-4.005	-7.056	-2.968	-2.261
Competitive aggressive					-3.907	-5.948	-2.810	-2.758	-3.752	-5.790	-2.662	-2.663
Relational skills									-2.572	-0.393	-2.898	-2.676
Internal Communication									2.985	3.543	2.245	2.559
Coordination									-1960	-2.731	-1.530	-1.404
Partners knowledge									1.001	2.461	0.720	0.226

F-ratio	133.771	217.003	82.030	75.569	75.304	167.722	42.094	36.680	46.452	106.572	26.019	22.803
Sig. F	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Model Parameters												
R^2	0.490	0.609	0.370	0.351	0.577	0.752	0.433	0.399	0.606	0.779	0.463	0.430
Adjusted R^2	0.486	0.606	0.366	0.347	0.569	0.748	0.422	0.388	0.593	0.772	0.445	0.411
R^2 Change	0.490	0.609	0.370	0.351	0.088	0.144	0.062	0.048	0.029	0.027	0.030	0.031
F – Change	133.771	217.003	82.030	75.569	19.034	53.382	10.112	7.327	4.970	8.215	3.794	3.678
Sig. F – Change	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.001	0.000	0.005	0.006

Model1: Predictors: (Constant), Factor 9: Competitive aggressiveness, F27256actor 6: Risk taking, Factor 5: Pro-activeness

Model 2: Predictors: (Constant), Factor 9: Competitive aggressiveness, Factor 6: Risk taking, Factor 5: Pro-activeness, Factor 1: Customer orientation, Factor 8: Competitor orientation

Model 3: Predictors: (Constant), Factor 9: Competitive aggressiveness, Factor 6: Risk taking, Factor 5: Pro-activeness, Factor 1: Customer orientation, Factor 8: Competitor orientation, Factor 3: Internal communication, Factor 2: Relational skills, Factor 4: Coordination, Factor 7: Partner's knowledge.

Dependent Variable: SME Performance (SME Perf.), LnProfit, LnROA & LnROI

**p< 0.01; *p<0.05

The relationship between LnROA and individual dimension of SER are: customer orientation (β = 0.334, p< 0.01), competitor orientation (β = 0.188, p< 0.01), pro-activeness (β = 0.085, p<0.123), internal communication (β = 0.105, p< 0.05), and partner's knowledge (β = 0.038, p< 0.472) (Table 6.39, model 3). These findings show that while customer orientation, competitor orientation, and internal communication recorded significant positive relationship with LnROA, pro-activeness and partner's knowledge recorded positive, but none significant relationship with LnROA. On the other hand, risk taking (β = - 0.159, p< 0.01) and competitive aggressiveness (β = - 0.130, p< 0.01) recorded significant negative relationships with LnROI, while coordination (β = - 0.076, p< 0.127) recorded negatively none significant relationship with LnROI.

With regard to the relationship between LnROI and individual dimensions of SER, model 3 in Tables 6.39 shows that customer orientation (β = 0.321, p< 0.01), competitor orientation (β = 0.216, p< 0.01), internal communication (β = 0.123, p<0.01), recorded positive significant relationship with LnROI and pro-activeness (β = 0.069, p< 0.226) and partners knowledge (β = 0.012, p< 0.822) recorded positive none significant relationship with LnROI. However, the risk taking (β = -0.125, p< 0.05) and competitive aggressiveness (β = - 0.134, p< 0.01) recorded significant negative relationships with LnROI while coordination (β = - 0.072, p< 0.161) recorded no significant relationship with LnROI. The positive relationship between individual dimensions and SME performance indicates that as a firm emphasizes on a respective individual dimension, the SME performance increases, while for a negative relationship, it implies the opposite.

The relationship between individual dimensions of SER and SME performance presents inconsistence in the nature of the relationship. It is evident that even in cases of factors drawn from the same constructs, revealed differences in the nature of the relationship. For example, while pro-activeness, risk taking and competitive aggressiveness are factors of entrepreneurial orientation, pro-activeness recorded a positive relationship while risk taking and competitive aggressiveness both recorded a negative relationship with SME performance. The same trend is observed in networking capability. This variation in the nature of the relationship with SME performance raised another question as to what the nature of the relationship between composite dimensions of SER and SME performance will be. The next section was set out to answer this question.

Category 2:   Composite dimensions of SER and SME performance

Three composite dimensions of SER were created, namely entrepreneurial orientation, market orientation and networking capability. The composite dimensions of SER were created by combining respective factors such as entrepreneurial orientation combined by pro-activeness, risk taking and competitive aggressiveness. The market orientation combined customer orientation and competitor orientation. Finally the networking capability combined relational skills; internal communication, coordination and partners' knowledge (see Figure 6.3). Then the relationship between the composite dimensions of SER and SME performance was examined to test hypothesis 2(a) to 2(c) (see section 5.1.3.3).

Despite of variation in the nature of relationship between individual dimensions of SER and SME performance, the composite dimensions of SER observed to maintain a positive relationship with SME performance and the three measures of performance, namely: LnProfit, LnROA and LnROI. In Table 6.40 model 4, the results show that market orientation was significantly positive related to SME performance (β = 0.697, p< 0.01), LnProfit (β = 0.779, p< 0.01), LnROA (β = 0.605, p< 0.01) and LnROI (β = 0.591, p< 0.01). Model 5 shows that entrepreneurial orientation recorded a significant positive relationship with SME performance (β = 0.336, p< 0.01), LnProfit (β = 0.408, p< 0.01), LnROA (β = 0.291, p< 0.01) and LnROI (β = 0.257, p< 0.01). Consistently model 6 shows that networking capability recorded significant positive relationship with SME performance (β = 0.276, p< 0.01), LnProfit (β = 0.374, p< 0.01), LnROA (β = 0.213, p< 0.01) and LnROI (β = 0.203, p< 0.01).

Table 6.40:   Parameter estimates (β) and model parameters for composite dimensions of SER

	Model 4				Model 5				Model 6			
	SME Perf.	LnProfit	LnROA	LnROI	SME Perf.	LnProfit	LnROA	LnROI	SME Perf.	LnpProfit	LnROA	LnROI
Composite dimensions	Beta (β)				Beta (β)				Beta (β)			
Market orientation	0.697**	0.779**	0.605**	0.591**								
Entrepreneurial orientation					0.336**	0.408**	0.291**	0.257**				
Networking capability									0.276**	0.374**	0.213**	0.203**
Standard Error												
Market orientation	0.062	0.017	0.026	0.026								
Entrepreneurial orientation					0.079	0.024	0.030	0.031				
Networking capability									0.068	0.021	0.026	0.026
t-statistics												
Market orientation	16.278	20.795	12.703									
Entrepreneurial orientation					5.969	7.479	5.082	4.457				
Networking capability									4.797	6.756	3.648	3.472
Model Parameters												
R^2	0.486	0.607	0.366	0.349	0.113	0.166	0.084	0.066	0.076	0.140	0.045	0.041
Adjusted R^2	0.484	0.606	0.363	0.347	0.110	0.164	0.081	0.063	0.073	0.137	0.042	0.038
F – ratio	264.988	432.418	161.365	150.070	35.630	55.929	25.824	19.868	23.015	45.638	13.311	12.057
Sig. F	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.001

Model 4: Predictors: Market orientation
Model 5: Predictors: Entrepreneurial orientation
Model 6: Predictors: Networking capability
 Dependent Variable: SME Performance, LnProfit, LnROA and LnROI
**p< 0.01; p< 0.05

6.2.5.4 Variance explained in SME performance by composite dimensions of SER

To examine how much variance is explained in the SME performance by the composite dimensions of SER, the multiple regression analysis was used to test hypotheses 3(a) to 3(c) (see section 5.1.3.4). Table 6.40 present results of three models (models 4, 5 & 6) in which the composite dimension of SER namely market orientation, entrepreneurial orientation and networking capability were analysed. According to Field (2009:202), the useful statistics when examining the amount of variance explained in the outcome variable by the predictors are the R square (R^2), adjusted R2, and the F-ratio.

The R square (R^2) in the regression measures the amount of variance in the outcome variable (for this study SME performance), explained by the model (SS_M) relative to how much variation there was to explain in the first place (SS_T) (Pallant, 2011:160). Therefore, as a percentage, it presents the percentage of variation in the outcome variable that can be explained by the model (Field, 2009:202). It is easily computed by dividing the model sum of square (SS_M) by the total sum of square (SS_T) (See Equation 6.6).

$$R^2 = \frac{SS_M}{SS_T}$$ …………………………………………………………(*Equation 6.6*)

In the case of model 4 in Table 6.40, when only the market orientation was included, the R^2 value was 0.486, 0.607, 0.366, and 0.349 for SME performance, LnProfit, LnROA and LnROI, respectively. These findings imply that market orientation alone accounted for the 48.6%, 60.7%, 36.6% and 34.9% of variance in the overall SME performance, LnProfit, LnROA and LnROI, respectively. In model 5, when only entrepreneurial orientation was considered the model explained R^2 = 0.113, R^2= 0.166, R^2= 0.084, and R^2= 0.066 of variance in SME performance, LnProfit, LnROA, and LnROI, respectively, suggesting that 11.3%, 16.6%, 8.4% and 6.6%. of variance in SME performance, LnProfit, LnROA and LnROI explained by entrepreneurial orientation. Consistently, in model 6 when networking capability was considered, the model recorded R^2= 0.076, R^2 =0.140, R^2 =0.045, and R^2= 0.041. In the overall SME performance, LnProfit, LnROA, and LnROI suggesting 7.6%, 14%, 4.5% and 4.1% of variance in SME performance, LnProfit, LnROA and LnROI is explained by networking capability.

In order to tell whether the amount of variance (R^2) explained in the outcome variables is significant, the F-ratio was calculated (See Equation 6.7) in which "*N*" is the number of cases, and "k" is the number of predictors in the model. According to Field (2009:235) the significance of R^2 is tested using an F–ratio to test hypothesis that the F-ratio is significantly different from zero. Examining the values of F-ratio in Table 6.40 in model 4, 5 and 6 all values were significant at p< 0.01 suggesting that market orientation, entrepreneurial orientation and networking capability explained significant amounts of variance in SME performance, LnProfit, LnROA and LnROI.

$$F = \frac{(N - k - 1) \times R^2}{k\left(1 - R^2\right)} \quad \text{………………………………………...(} Equation 6.7 \text{)}$$

6.2.5.5   Variance explained in SME performance by interaction of composite dimensions of SER

The amount of variance explained in SME performance by the interaction of composite dimensions of SER market orientation and entrepreneurial orientation, and market orientation, entrepreneurial orientation and networking capability was examined. The objective of this analysis was to test hypothesis 4(a) and 4(b) as presented in section 5.1.3.5 to determine if there is any synergic relationship among dimensions and if this interaction account for a significant amount of variance in SME performance. In events where more predictors are added in the model such as model 8 and 9 the R^2 change and F- change were used to make judgment on whether the added variable had significant contribution to the overall variance explained in the SME performance after controlling the effects of the other predictors in the model. The significance of R^2 change is tested by using the F- change ratio which is computed using similar equation presented in equation 6.7 except that since the interest is to find the change in models rather then the change in R^2 (R^2_{Change}) and the R^2 in the new model, should correspond to the parameters in the respective model. Equation 6.8 in this study gives an example of model 8, which includes the following parameters R^2_8, R^2_{Change} and k_{Change}

$$F_{Change} = \frac{(N - k_8 - 1) \times R^2_{Change}}{k_{Change}\left(1 - R^2_8\right)} \quad \text{……………..………………..(} Equation 6.8 \text{)}$$

Table 6.41 model 7 shows that when only market orientation was included in the model, the amount of variance explained in SME performance, LnProfit, LnROA and LnROI were $R^2 = 0.486$, $R^2 = 0.607$, $R^2 = 0.366$ and $R^2 = 0.349$, respectively. Addition of entrepreneurial orientation in model 8, the amount of variance increased to $R^2 = 0.498$, $R^2 = 0.631$, $R^2 = 0.374$ and $R^2 = 0.353$ in SME performance, LnProfit, LnROA and LnROI, respectively. When the networking capability was added in model 9, the amount of variance increased slightly to $R^2 = 0.501$, $R^2 = 0.648$, $R^2 = 0.375$ and $R^2 = 0.353$ in SME performance, LnProfit, LnROA and LnROI, respectively. The F-ratio for the three models (7, 8 & 9) were significant at $p < 0.01$ suggesting that all models fitted data well and all the interactions explained significant amounts of variance in SME performance.

However, it was interesting to go further to understand which of the dimensions of the SER in the interaction accounted for a significant amount of variance in SME performance. The R^2 square change and F-change were used to isolate individual contribution of the dimension of the SER in the amount of variance explained in SME performance. The R^2 change in model 8 when entrepreneurial orientation was added for SME performance and LnRrofit were $\Delta R^2 = 0.012$ and $\Delta R^2 = 0.024$, respectively with F-change significant at $p < 0.01$. Conversely, entrepreneurial orientation recorded the R^2 square change (ΔR^2) = 0.012 with the F change none significant at $p < 0.191$ in LnROI. On the other hand, the R^2 change in model 9 was (ΔR^2) = 0.016 in LnProfit with the F change significant at $p < 0.01$ and accounted nosignificant amount of variance in SME performance, LnROA and LnROI,

Table 6.41:   Parameter estimates (β) and model parameters for interaction of composite dimensions of SER

	Model 7				Model 8				Model 9			
	SME Perf.	LnProfit	LnROA	LnROI	SME Perf	LnProfit	LnROA	LnROI	SME Perf.	LnpProfit	LnROA	LnROI
Composite dimensions			Beta (β)				Beta (β)				Beta (β)	
Market orientation	0.697**	0.779**	0.605**	0.591**	0.659**	0.724**	0.571**	0.568**	0.645**	0.693**	0.566**	0.563**
Entrepreneurial orientation					0.115*	0.166**	0.099*	0.067ns	0.104*	0.139**	0.095ns	0.063ns
Networking capability									0.061ns	0.136**	0.023ns	0.023ns
Standard Error												
Market orientation	0.062	0.017	0.026	0.026	0.065	0.018	0.027	0.028	0.066	0.018	0.028	0.028
Entrepreneurial orientation					0.063	0.017	0.026	0.027	0.064	0.017	0.027	0.028
Networking capability									0.061	0.014	0.022	0.023
t-statistics												
Market orientation	16.277	20.795	12.703		14.631	18.755	11.370	11.118	13.995	17.889	10.972	10.730
Entrepreneurial orientation					2.562	4.292	1.972	1.311	2.262	3.620	1.845	1.200
Networking capability									1.349	3.587	0.464	0.449
F- ratio	264.943	432.418	161.365	150.070	138.384	238.876	83.461	76.088	93.134	170.315	55.555	50.647
Sig. F	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Model Parameters												
R^2	0.486	0.607	0.366	0.349	0.498	0.631	0.374	0.353	0.501	0.648	0.375	0.353
Adjusted R^2	0.484	0.606	0.363	0.347	0.494	0.629	0.370	0.348	0.496	0.644	0.368	0.346
R^2 Change	0.486	0.607	0.366	0.349	0.012	0.024	0.009	0.004	0.003	0.016	0.000	0.000
F – Change	264.943	432.418	161.365	150.070	6.562	18.425	3.891	1.719	1.820	12.868	0.215	0.202
Sig. F – Change	0.000	0.000	0.000	0.000	0.011	0.000	0.050	0.191	0.178	0.000	0.643	0.654

Model 7: Predictors: Market orientation
Model 8: Predictors: Market orientation, Entrepreneurial orientation
Model 9: Predictors: Market orientation, Entrepreneurial orientation, Networking capability
Dependent Variable: Overall Performance (Perf.), LnProfit, LnROA and LnROI
**p< 0.01; p< 0.05

It was interesting to test whether these data can be generalized beyond the sample of interest. In this case the adjusted R^2 was compared to the R^2 to determine the magnitude of the difference. Field and Miles (2010:206) suggest that while R^2 hints the amount of the variance in the outcome variable that is accounted for by the regression model from the sample of interest, the adjusted R^2 gives some idea on how well the model generalizes the data across the population. In other words, the adjusted R^2 tells how much variance in outcome variable would be accounted for if the model had been derived from the population from which the sample was taken. In this case, for a good model the value of adjusted R^2 should be the same or very close to the value of R^2. The computation of the adjusted R^2 was performed using the Stein's equation which is presented in equation 6.9 (Field, 2009:222).

$$\text{Adjusted R}^2 = 1 - \left[\left(\frac{n-1}{n-k-1} \right) \times \left(\frac{n-2}{n-k-2} \right) \times \left(\frac{n+1}{n} \right) \right] \times \left(1 - R^2 \right) \ldots \ldots (Equation\ 6.9)$$

Where:

- "R^2"is the unadjusted value,

- "n" is the number of participants

- "k" is the number of predictors in the model.

Examining the difference between R^2 and adjusted R^2 for SME performance in model 7, 8 and 9 presented in Table 6.41, it was indicated that the difference between the two values for each mode is very small. For example, the difference between R^2 and adjusted R^2 in SME performance for model 7, 8 and 9 is 0.002, 0.004 and 0.005, respectively. This shrinkage suggests that if the models were derived from the entire population rather than a sample, it would account for approximately 0.2% (model 7), 0.4% (model 8) and 0.5% (model 9) less variance in the SME performance. With such a small difference, it is confidently concluded that the findings can be generalized across the population of interest.

6.2.5.6 Influence of demographic variables in the amount of variance explained

After the analysis have examined the amount of variance explained in SME performance by the individual and composite dimensions of SER and the contribution (effect) of

individual and composite dimensions of SER in the ability of the model to predict or explain variance in SME performance, it was imperative to control the influence of firm size, type of industry, and level of education of owner/manager in the amount of variance explained in SME performance by the dimensions of SER to test hypothesis 5(a) to 5(c) presented in section 5.1.3.6. The reason for controlling the effects of these variables is to rule out the confounding effect of these variables that were observed in the Multiway ANOVA to have influence on individual dimensions of SER that subsequently have influence in SME performance. In this view, controlling the influence of firm size, type of industry, and level of education of owner/manager, enables one to draw a conclusion on whether the amount of variance explained in SME performance by the dimensions of SER is due to the influence of firm size, type of industry, and level of education of owners / managers or if it is irrespective of these variables.

Table 6.42 presents results on parameter estimates for sequential multiple regression with four models (model 10, 11, 12 & 13). These findings presented in model 10, represent parameter estimates only when demographic variables namely firm size, type of industry, and level of education of owner/manager were considered. Model 11 includes the demographic variables and the market orientation, but only when the effects of the demographic variables are controlled. Model 12 involves demographic variables, market orientation and entrepreneurial orientation, but only when the effects of demographic variables and market orientation are controlled. Model 13 includes the demographic variables, market orientation, entrepreneurial and networking capability, but only when the effects of demographic variables, market orientation and entrepreneurial orientation are controlled.

Table 6.42:   Parameter estimates (β) and model parameters for the interaction of Composite dimensions of SER

	Model 10				Model 11				Model 12				Model 13			
	SME Perf.	LnProfit	LnROA	LnROI	SME Perf.	LnProfit	LnROA	LnROI	SME Perf.	LnpProfit	LnROA	LnROI	SME Perf.	LnProfit	LnROA	LnROI
Demographic Variables	Beta (β)				Beta (β)				Beta (β)				Beta (β)			
Firm size	-0.377**	-0.077ns	-0.457**	-0.482**	-0.328**	-0.023ns	-0.414**	-0.439**	-0.337**	-0.034ns	-0.423**	-0.446**	-0.341**	-0.041ns	-0.426**	-0.449**
Type of industry	-0.030ns	-0.027ns	-0.011ns	-0.046ns	-0.035ns	-0.032ns	-0.015ns	-0.050ns	-0.042ns	-0.040ns	-0.021ns	-0.055ns	-0.045ns	-0.046ns	-0.023ns	-0.057ns
Level of education	0.482**	0.504**	0.442**	0.414**	0.234**	0.233**	0.225**	0.200**	0.219**	0.217**	0.211**	0.189**	0.211**	0.202**	0.206**	0.184**
Composite dimensions of SER																
Market orientation					0.637**	0.695**	0.556**	0.549**	0.600**	0.654**	0.521**	0.523**	0.588**	0.633**	0.514**	0.515**
Entrepreneurial orientation									0.123**	0.141**	0.118**	0.091**	0.112**	0.122**	0.112**	0.084ns
Networking capability													0.065ns	0.112**	0.038ns	0.042ns
Standard Error (SE)																
Firm size	0.228	0.073	0.085	0.085	0.169	0.049	0.068	0.069	0.167	0.048	0.068	0.069	0.167	0.047	0.068	0.069
Type of industry	0.175	0.056	0.065	0.066	0.129	0.037	0.052	0.053	0.128	0.037	0.052	0.053	0.128	0.036	0.052	0.053
Level of education	0.102	0.032	0.038	0.038	0.080	0.023	0.032	0.033	0.080	0.023	0.032	0.033	0.080	0.023	0.033	0.033
Market orientation					0.060	0.017	0.024	0.025	0.062	0.018	0.025	0.026	0.063	0.018	0.025	0.026
Entrepreneurial orientation									0.058	0.017	0.023	0.024	0.059	0.017	0.024	0.024
Networking capability													0.049	0.014	0.020	0.020
t-Statistics																
Firm size	-6.170	-1.271	-7.538	-7.936	-7.236	-0.572	-8.449	-8.892	-7.532	-0.854	-8.703	-9.059	-7.631	-1.038	-8.732	-9.094
Type of industry	-0.503	-0.456	-0.177	-0.773	-0.785	-0.804	-0.303	-1.034	-0.960	-1.033	-0.451	-1.149	-1.032	-1.182	-0.487	-1.188
Level of education	8.115	8.536	7.492	7.013	5.001	5.514	4.446	3.916	4.728	5.213	4.191	3.704	4.527	4.903	4.063	3.572
Market orientation					15.225	18.385	12.277	12.043	13.977	16.997	11.167	11.057	13.514	16.440	10.836	10.717

Entrepreneurial orientation									2.991	3.819	2.632	1.998	2.689	3.304	2.451	1.813
Networking capability													1.587	3.060	0.841	0.924
F-ration	108.870	28.746	28.998	28.832	95.387	132.199	71.141	69.085	80.289	113.861	59.515	56.663	67.695	99.319	49.661	47.336
Sig. F	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Model Parameters																
R^2	0.227	0.237	0.238	0.237	0.579	0.656	0.507	0.499	0.593	0.673	0.519	0.507	0.596	0.684	0.520	0.508
Adjusted R^2	0.219	0.229	0.230	0.229	0.573	0.651	0.500	0.492	0.585	0.668	0.510	0.498	0.587	0.677	0.510	0.497
R^2 Change	0.227	0.237	0.238	0.237	0.352	0.419	0.268	0.262	0.013	0.017	0.012	0.007	0.004	0.011	0.001	0.002
F – Change	27.276	28.998	28.998	28.832	231.786	338.014	150.717	145.031	8.949	14.582	6.925	3.991	2.518	9.361	0.707	0.853
Sig. F – Change	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.009	0.047	0.114	0.002	0.401	0.357

Model 7: Predictors: (Constant), Level of education, Type of industry, Firm size
Model 8: Predictors: (Constant), Level of education, Type of industry, Firm size, Market orientation
Model 9: Predictors: (Constant), Level of education, Type of industry, Firm size, Market orientation, Entrepreneurial orientation
Model 10: Predictors: (Constant), Level of education, Type of industry, Firm size, Market orientation, Entrepreneurial orientation, Networking capability
Dependent Variable: Overall Performance, LnRofit, LnROA and LnROI
**p< 0.01; *p<0.05

The findings in model 10 shows that the demographic variables alone accounted for relatively similar amounts of variance in SME performance ($R^2 = 0.227$), LnProfit ($R^2 = 0.237$), LnROA ($R^2 = 0.238$), and LnROI ($R^2 = 0.237$) (Table 6.42). Examining the unique contribution (effect) amongst three control variables; education consistently contributed significantly more effect in SME performance (β = 0.482**), LnProfit (β = 0.504**), LnROA (β = 0.442**), and LnROI (β = 0.414**). The firm size recorded significant effects in SME performance (β = - 0.377**), LnROA (β = - 0.457**) and LnROI (β = - 0.482**) and no significant effect in LnProfit. Consistently, the type of industry did not record any significant effect in any of the SME performance measures (Table 6.42).

When market orientation was added in model 11, the variance explained in SME performance increased to $R^2 = 0.579$. After controlling the effects of the demographic variables, the R^2 change was 0.352 significant at p< 0.01 and the highest beta (β= 0.637**) value was recorded by the market orientation. Model 12 added entrepreneurial orientation and the variance explained in SME performance increased to $R^2 = 0.593$. After controlling the effects of the demographic variables and market orientation the R^2 change was 0.013 significant at p< 0.01, consistently market orientation still recorded the highest beta (β = 0.600**). Model 13 added networking capability and there was a slight increase in the total amount of variance explained in SME performance, $R^2 = 0.596$, with the R^2 change = 0.004 no significance at p< 0.114. The R^2 change = 0.011 for networking capability recorded significant F change at p< 0.01 in LnProfit. These findings suggest that networking capability accounted for a significant amount of variance in LnProfit and no significant amount of variance in the overall SME performance, LnROA and LnROI.

In view of these findings, it can be concluded that after controlling the influence of background variables, namely: firm size, type of industry, and level of education of the owner/manager, the market orientation and entrepreneurial orientation accounted for a significant amount of variance in SME performance. However, the networking capability accounted for significant amounts of variance only in LnProfit and no significant amount of variance in SME performance, LnROA and LnROI.

6.3   CHAPTER SUMMARY

This chapter presented findings of the empirical study and covered descriptive statistics, and multi-variate analysis, specifically the factor analysis, analysis of variance (ANOVA), and the multiple regression analysis. In view of the descriptive statistics, the demographic data indicated that the business environment is composed of micro, small, and medium enterprises with large proportions of small enterprises (66%) and relatively small proportions of medium enterprises (14%) taking part in the survey. The results shows that the ownership/management of SMEs in the study area is slightly male dominated by 54.3% and the age of the majority, 71.82 percent of the owners/managers' age ranged between 30-49 years, regardless of their gender. It also shows that over 51.89 percent of owners/managers attained at least a secondary education. While about 64.5% of SMEs reported either no change or a decrease in employment growth, but recorded a reasonable increase in the wage bill, profit growth, sales growth, return on asset and return on investment.

The compliance of data to factor analysis is supported by the KMO measure of 0.947 that indicates a high sampling adequacy for factor analysis, and the Bartlett's test of sphericity on the other hand is significant at $p<0.01$, which suggests that the factor model is appropriate for these data. The factor analysis extracted nine factors (individual dimensions) of strategic entrepreneurial response (SER), namely: customer orientation, relational skills, internal communication, coordination, pro-activeness, risk taking, partner's knowledge, competitor orientation, and competitive aggressiveness. According to literature, the nine factors relate to one of the three main constructs, namely: market orientation, entrepreneurial orientation and networking capability. Subjecting the nine factors in the second order, factor analysis converged to a single component providing evidence of measuring a single construct–strategic entrepreneurial response. The total variance explained by the nine factors after rotation is 68.16 percent. The recorded high Cronbach's alpha value that ranged between 0.805 and 0.932 in this data, suggests high construct reliability.

The multiway ANOVA for nine factors shows some significant difference amongst groups. For customer orientation (factor 1) and competitive aggressiveness (factor 9) were significantly different in terms of the type of industry, age, and the level of education of the owner/manager. For relational skills (factor 2), coordination (factor 4), pro-activeness (factor 5), risk taking (factor 6), partners knowledge (factor 7), and competitor orientation (factor 8) were significantly different along the age and the level of education of the owners/managers. For internal communication (factor 3), the only significant difference was on the level of education of the respondents. The Post hoc analysis specifically the Dumcan's Multiple Range Test (DMRT) indicates that age plays a great role for business owners/managers to engage on customer orientation, relational skills, coordination, pro-activeness, risk taking, competitor's knowledge and competitive aggressiveness with the highest mean recorded on the age group between 30–49 years.

The effects of the level of education on the dimensions of strategic entrepreneurial response indicated that the owners/managers with at least a certificate level of education recorded a higher mean in all nine individual dimensions of the SER. This suggests that owners or managers with at least a certificate level of education are more likely to be more customer orientation, more pro-active towards business opportunities, more risk-taking, well-equipped with relational skills, good on coordinating business activities and resources, have a greater partner's knowledge, have more competitors knowledge, and are more competitive aggressive than their counterparts with a secondary education level or lower.

With regard to the effects of the type of industry on the individual dimensions of strategic entrepreneurial response, the service industry recorded a higher mean in customer orientation than in the manufacturing and retail industries. These findings suggest that the service industry is much more oriented to customers compared to the manufacturing and retail sectors. Also, the service and manufacturing industries with higher means on risk taking and competitive aggressiveness implies that they are much more risk takers and competitive aggressive compared to those in the retail industry.

The sequential / hierarchical regression analysis was carried out for four purposes:

1. to examine the relationship between SME performance, and individual and composite dimensions of SER,

2. to examine the amount of variance explained in SME performance by the composite dimension of SER.

3. to control the influence of the demographic variables (firm size, type of industry and level of education of the owner/manager) to rule out the confounding effects of these variables in the amount of variance explained in SME performance by the individual and composite dimensions of the SER.

4. to identify the best predictor to explain SME performance.

Preliminary analyses were performed prior to hierarchical regression analysis to ensure no violation of the assumptions of normality, linearity, outlier, multicollinearity, and homoscedasticity.

Examining the relationship between both individual and composite dimensions of strategic entrepreneurial response and SME performance, LnPprofit, LnROA, and LnROI, the findings indicate that customer orientation, competitor orientation, pro-activeness, relational skills, internal communication, and partner's knowledge registered a positive relationship with SME performance, Lnprofit, LnROA, and LnROI while risk taking, competitive aggressiveness and coordination recorded a negative relationship with the LnProfit, LnROA, and LnROI (Table 6.40). These results support the Pearson correlation results presented in Table 6.21. Regarding the composite dimensions of the SER, all three dimensions of SER market orientation, entrepreneurial orientation and networking capability recorded a significant positive relationship with SME performance.

The results of the sequential multiple regression indicated that when only customer orientation is included in the model, it accounted for 49.0 percent of variance in SME performance, 60.9 percent of the variance in LnProfit, 37.0 percent of variance in LnROA, and 35.1 percent of variance in LnROI. Subsequent addition of factors in the
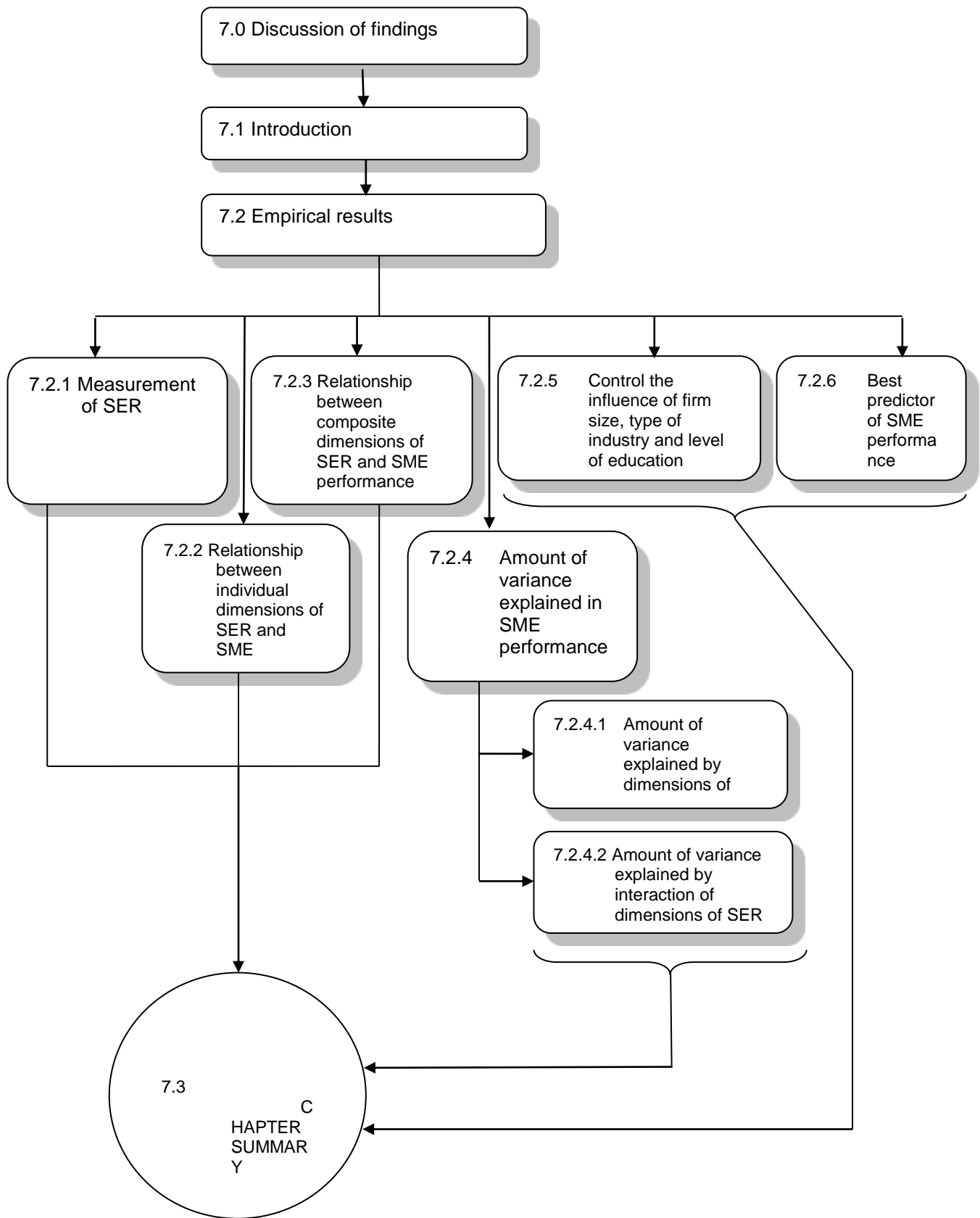
model improved the prediction power of the model. For example, when all predictors were included in model 3, the variance explained by the model increased significantly for SME performance 60.6 percent, for LnProfit 77.9 percent, for LnROA 46.3 percent and for LnROI 43.0 percent. This implies that each factor added in the model had a significant incremental effect on the outcome variable at $p < 0.05$.

Similarly, the composite dimensions registered similar trends though with relatively low amount of variance recorded in the outcome variables compared to the individual dimensions of SER. For example, in model 7, when only market orientation was considered the amount of variance in SME performance, was 0.486 and when entrepreneurial orientation and networking were added in model 8 and 9, the amount of variance in SME performance increased to 0.498 and 0.501, respectively. However, findings revealed that although the interaction of market orientation, entrepreneurial orientation and networking capability accounted significant amounts of variance in SME, it is only market orientation and entrepreneurial orientation that accounted for a significant amount of variance. The networking capability was able to explain significant amounts of variance only in LnProfit and no significance in SME performance, LnROA and LnROI.

After controlling the confounding effect of the firm size, type of industry and level of education of the owners/managers, the composite dimensions of SER were able to explain significant amounts of variance in SME performance (LnProfit, LnROA and LnROI). These results suggest that the amount of variance explained in SME performance is irrespective of the firm's size, type of industry and the level of education of the owner / manager. With regard to the best predictor of SME performance, LnProfit, LnROA, and LnROI, the market orientation consistently recorded the highest amount of variance in SME performance, LnProfit, LnROA, and LnROI compared to other dimensions of SER, which suggests the best predictor to explain SME performance.

Chapter seven discusses the findings and presents conclusions and recommendations.

CHAPTER LAYOUT – CHAPTER SEVEN

7.0 Discussion of findings

7.1 Introduction

7.2 Empirical results

7.2.1 Measurement of SER

7.2.3 Relationship between composite dimensions of SER and SME performance

7.2.5 Control the influence of firm size, type of industry and level of education

7.2.6 Best predictor of SME performance

7.2.2 Relationship between individual dimensions of SER and SME

7.2.4 Amount of variance explained in SME performance

7.2.4.1 Amount of variance explained by dimensions of

7.2.4.2 Amount of variance explained by interaction of dimensions of SER

7.3 CHAPTER SUMMARY

7 DISCUSSION OF FINDINGS

7.1 INTRODUCTION

This study was scheduled to answer the following research questions:

1. Does the individual dimension of market orientation, entrepreneurial orientation and networking capability successfully measure strategic entrepreneurial response (SER)?

2. (i) Is there any relationship between the individual dimensions of SER and SME performance? (ii) If yes, do the composite dimensions of SER present a similar nature of relationship with SME performance?

3. How much variance in SME performance is explained by scores of the composite dimensions of SER?

4. Is there an interactive relationship amongst the composite dimensions of SER? And do these interactions explain a significant amount of variance in the SME performance?

5. If the demographic variables, such as the firm size, type of industry, and level of education of the owners/managers are controlled, is the three composite dimensions of SER, namely: market orientation, entrepreneurial orientation, and networking capability still able to explain a significant amount of variance in SME performance?

6. What is the best predictor to explain SME performance amongst the three composite dimensions of SER: market orientation, entrepreneurial orientation, or networking capability?

Responding to these questions, a review of relevant literature was necessary to examine what has been reported and identify a research gap and a justification for this study. The literature review is presented in three chapters, namely chapter 2, 3 and 4. Chapter 2 presents the nature of the business environment, evolution of strategic entrepreneurship as a response to the dynamic and competitive environment highlights the conceptual gaps from previous studies and identifies

market orientation, entrepreneurial orientation, and networking capability as appropriate constructs of strategic entrepreneurial response (SER) to bridge the conceptual gaps from the previous studies. In chapter 3, the concept of strategic entrepreneurial response is explored; the relationships between dimensions of SER and SME performance are reviewed and it presents the research conceptual framework. Chapter 4 presents the context in which data were collected, highlights various strategies employed to support entrepreneurship in the SME sector, covers the trends of socio economic development and policy reforms since independence and their implication to entrepreneurship culture and SME development. Finally, it concludes by identifying the main challenges facing entrepreneurs and SMEs in Tanzania in the era of globalization and trade liberalization. The research methodology and results of the study are presented in chapter 5 and 6, respectively.

7.2   EMPIRICAL RESULTS

The discussion of empirical results of this study is structured in six sections aimed at answering six research questions presented in section 7.1. The first section is on measurement of the concept of strategic entrepreneurial response (SER).   The second section is on the relationship between individual and composite dimensions of SER and SME performance. The third section is on the amount of variance explained in SME performance by the composite dimensions of SER. The fourth section is on the amount of variance explained in SME performance by the interaction of dimensions of SER. The fifth section is on controlling the influence of demographic variables in the amount of variance explained in SME performance, to be able to draw a conclusion whether the variance explained in SME performance is due to the dimensions of SER or are influenced by demographic variables. The sixth section is to identify the best predictor to explain SME performance.

7.2.1   Measurement Of Strategic Entrepreneurial Response

This study derived the concept of strategic entrepreneurial response from three constructs, namely: market orientation, entrepreneurial orientation and networking capability. Each construct has a set of dimensions; market orientation has two dimensions, namely: customer orientation and competitor orientation. Entrepreneurial orientation has three dimensions, namely: pro-activeness, risk taking

and competitive aggressiveness and networking capability includes four dimensions, namely: relational skills, internal communication, coordination and partners' knowledge. Since these dimensions were used for the first time to measure SER, it raised the first research question presented in section 7.1.

Question 1: *Does the individual dimension of market orientation, entrepreneurial orientation and networking capability successfully measure SER?*

To answer the first research question the proposition 1 (P1) presented below was formulated.

P1   *Collective dimensions of market orientation, entrepreneurial orientation, and networking capability measure strategic entrepreneurial response (SER)..*

Before proceeding further to measure SER, the data suitability for factor analysis that leads to a reliability test was performed. Table 6.13 reported a significant Bartlett's test of sphericity at p< 0.01 suggesting the correlations matrix of the test variables is significantly different from the identity matrix. The findings suggest reasonable correlations that support factor analysis. Moreover, the Kaiser Meyer–Olkin value of 0.947 (Table 6.13) exceeding the recommended value of 0.5, suggests sampling adequacy for factor analysis (Kaiser, 1970:405; Kaiser, 1974:35).

Subjecting the individual dimensions in the principal component analysis, after oblique rotation, revealed presence of nine factors with an Eigenvalue greater than 1, explaining a total variance of 68.16 percent of the total variance (Table 6.16). The extracted factors were customer orientation, relational skills, internal communication, coordination, pro-activeness, and risk taking. Others include partners' knowledge, competitor orientation and competitive aggressiveness. The reliability analysis of nine factors were presented in Table 6.20 with the highest Cronbach's alpha (α) value recorded in relational skills (α = 0.932) and the lowest value recorded in competitor orientation (α = 0.805). These values are beyond the cut-off point of 0.8 which impliy that they represent acceptable levels of internal reliability (Bryman & Bell, 2007:164). The higher Cronbach's alpha values recorded in this study, denote

that the measurement tool captured well the dimensions of the three constructs, namely: market orientation, entrepreneurial orientation and networking capability.

Based on the literature, the nine factors are dimensions of the three constructs, namely: market orientation (i.e. customer orientation and competitor orientation) (Narver & Slater, 1990:21); entrepreneurial orientation (i.e. pro-activeness, risk taking and competitive aggressiveness) (Lumpkin & Dess, 1996:137; Lumpkin & Dess, 2001:431; Miller, 1983:771) and networking capability (i.e. relational skills, internal communication, coordination and partner's knowledge) (Walter *et al*., 2006:541). The summary of distribution of each factor on respective constructs was summarized in Figure 6.3.

To examine whether the extracted factors/collective dimensions of market orientation, entrepreneurial orientation and networking capability could successfully measure SER, the second order factor analysis was performed. The results on the second order factor analysis, which involved the nine factors, converged to a single component (Table 6.19). This implies that the extracted nine factors measured a single construct that is the "strategic entrepreneurial response (SER)". This observation is consistent with the argument posed by Field (2009:628) that the existence of clusters of large correlation co-efficients between a subset of variables suggests that those variables could be measuring aspects of the same underlying construct. Li *et al*. (2008:123) supported the argument that convergent validity exists if a group of indicators are measuring a common factor.

According to Fornell and Lacker (1981) the convergent validity can be measured at the individual item's loadings and the average variance extracted (AVE). Gefen, Straub, and Boudreau (2000) suggest that individual item loadings, which represent squared multiple correlation of 0.7 or greater may imply that the factor shares more variance with its construct than error variance. Table 6.20 presents results on square multiple correlations of extracted factors ranging between 0.828 and 0.944 which are quite well above 0.7. These findings suggest that more than 80% of the items variance (the squared multiple correlations) can be attributed to strategic entrepreneurial response. From these findings it can confidently be concluded that

the nine factors successfully measured the concept of strategic entrepreneurial response (SER), hence supporting proposition 1.

SUMMARY

The literature review and empirical results support the proposition that SER is measured by the collective dimensions of market orientation, entrepreneurial orientation, and networking capability. The decision is based on the fact that the collective test dimensions converged into a single construct which imply that they are measuring aspects of the same underlying construct. The second support is that the square multiple correlation of the extracted nine factors are by far above 0.7, suggesting that they share more variance with the SER than the error variance. With these findings, proposition 1 which states, *"collective dimensions of market orientation, entrepreneurial orientation, and networking capability measure strategic entrepreneurial response,* is accepted.

7.2.2   Relationship Between Individual Dimensions Of SER And SME Performance

The convergence of the nine factors into one construct, implies that these factors are substantially correlated and they measure a single construct "strategic entrepreneurial response (SER)". For the purpose of this study the nine factors will be referred to as individual dimensions of SER, a term that will apply throughout the next sections. However, the convergence of individual dimensions of SER into a single construct, does not tell whether these factors are related to the dependent variables such as SME performance, LnProfit, LnROA and LnROI. This argument raised the second research question 2(i) presented in section 7.1.

> Question 2(i):   *Is there any relationship between the individual dimensions of SER and SME performance?*

To answer this question, the relationships between individual dimensions of strategic entrepreneurial response, namely: customer orientation, competitor orientation, pro-activeness, risk taking, competitive aggressiveness, relational skills, internal communication, coordination and partner's knowledge with SME performance,

LnProfit, LnROA and LnROI were examined using the multiple regression to test a set of advanced hypothesis 1(a) to 1(i). The findings are discussed in the next section.

1:   Relationship between customer orientation and SME performance

Customer orientation is the sufficient understanding of target buyers of products and services to be able to continuously create superior value for them (Narver & Slater, 1990:21). A thorough understanding of customers entails the understanding of customer's taste, preferences, current demands and problems confronting them. Loasby (2010:1302) and Gorry and Westbrook (2011) concludes that prior knowledge of customers' problems and ways to serve the market, influence discovery of solutions to the customers' problems. This conclusion may suggest that customer orientation can serve as a source of a customer's prior knowledge to the firm, which implies that the firm knows in advance which products/services are required, in which form and when they should be made available to the market. Keh *et al.* (2007:607) supports this argument and points out that firms that monitor customers' needs tend to improve creativity and produce novel and meaningful offerings and marketing programs that enhance the firm's performance. Based on these arguments it is compelling to believe that customer orientation is related to SME performance. It is from this background hypothesis 1(a) was formulated.

> *Ho1(a)   Customer orientation is not related to SME performance.*

> *Ha1(a)   Customer orientation is related to SME performance.*

The relationship between customer orientation and SME performance was examined to test hypothesis 1(a) through multiple regression. Model 3 in Table 6.39 shows a high and significant positive relationship between SME performance and customer orientation ($\beta = 0.361**$). These findings suggest that as firms put more emphasis on customers, it generates strategic information that leads to the understanding of challenges confronting them and both articulable and latent needs. Articulable needs can easily be expressed by customers, while the latent needs on the other hand cannot be expressed easily, but can be identified by examining day to day challenges confronting customers. Awareness of customers' challenges and needs constitute the relevant market opportunities which potentially have strong

performance implications. Verhees and Meulenberg (2004:147) reported similar findings when examined the relationship between customer market intelligence and a small company's performance.

Exposure to customer challenges provides a road map to develop innovations as a response to address these challenges. Wicklund and Shepherd (2003:1308) argued that the "locus of innovation often lies with users of new technologies who cannot easily articulate their needs". Schindehutte *et al.* (2008:7) echoed a similar view, that in market-driven environments customers are not necessarily able to express needs or preferences, a situation that create challenges in the way strategic market information can be generated. In this case, this study argues that focusing on customers' challenges and the needs which have not found solutions and the effort to find solutions to fill these gaps, may enhance innovation that is associated with the firm's performance.

SUMMARY

The recorded highly significant positive relationship between customer orientation and SME performance provide empirical evidence to reject the null hypothesis Ho1(a) and accept an alternative hypothesis Ha1(a) that state *"The customer orientation is related to SME performance"*.

The positive relationships between customer orientation and SME performance suggest that as firms emphasises on customer orientation, they are likely to identify market gaps which constitute real potential opportunities. The response to fill these gaps triggers innovation that subsequently enhances a firm's performance.

2:      Relationship between competitor orientation and SME performance

Competitor orientation is the understanding of the short term strengths and weaknesses and the long term capabilities of both current and potential competitors (Narver & Slater, 1990:21). This may also suggest that firms that focus on competitors are able to identify opportunities which are currently not exploited, or partially exploited, by rivals. This information is crucial for proactive firms to offer unique products and services before rivals. Li *et al.* (2008:119) argues that proactive firms offer unique products and services before competitors and take first mover

advantage to generate profits and wealth before competitors are able to imitate the competitive advantage and offer similar products and or services. This may suggest that competitor orientation is associated with SME performance hence the hypothesis 1(b).

> *Ho1(b)   Competitor orientation is not related to SME performance*
>
> *Ha1(b)   Competitor orientation is related to SME performance.*

In addressing the hypothesis 1(b) the relationships between competitor orientation and SME performance were examined. The results presented in Table 6.39 model 3 shows that SME performance recorded significant positive relationships with the competitor orientation (β = 0.226**). The recorded positive relationship suggests that as the firms capitalize on competitor orientation, the better the firm's performance, which implies that it understands the strength and weaknesses of rivals in terms of strategy they use, types of products and services they offer and those which are currently not offered. As such, this information is helpful for firms adopting pro-active strategies as a response to seize market opportunity before competitors. Possibly this observation may explain the recorded highly significant positive correlation between pro-activeness and competitor orientation (r = 0.443**) (Table 6.21). This may suggest that a pro-active firm is likely to take pro-active posture when it is informed about rivals' weaknesses and strengths, possibly to be able to identify the entry point when offering products and or services to the markets.

Understanding rivals' weaknesses is another way of identifying opportunities that enables the firm to capitalize in their own advantage. On the other hand, understanding rival's strengths provides a platform for the firm to learn and acquire new capabilities to gain competitive advantage that sustain a firm's performance. Also knowing the strategy, type of products and services currently offered by competitors, enables the firm to effectively execute differentiating strategy by offering new products or the same products and or services in a different way. Porter (1996:64) affirms that competitive strategy is about choosing to be different from rivals. However, to sustain a competitive advantage, a continuous process of learning and understanding the competitor's behaviour is crucial in order to offer different products/services in the market.

SUMMARY

The significant relationship between competitor orientation and SME performance provide empirical evidence to reject the null hypothesis Ho1(b) and accept an alternative hypothesis Ha1(b) that state *"The competitor orientation is related to SME performance"*.

The positive relationship suggests that a competitor-oriented firm generate strategic information that enables the firm to capitalize on rivals' weaknesses for the firm's advantage and learn from its strengths to build a competitive advantage. This information also facilitates firms to execute differentiation strategies as a response to fill the market gaps. Sustained competitor orientation fosters a sustainable competitive advantage crucial in strategic entrepreneurship to enhance a firm's performance.

3:      Relationship between pro-activeness and SME performance

According to Lumpkin and Dess (2001:431) pro-activeness refers to opportunity-seeking, forward-looking behaviour and involves introduction of new products/services ahead of competitors and acting in anticipation of future demand to create change and shape the environment in a firm's advantage. It is from this view that the proactive behaviour has long been associated with the first mover advantage that is related to firm performance (Li *et al.,* 2008:119). This argument leads to the formulation of the hypothesis 1(c).

>   *Ho1(c)   Pro-activeness is not related to SME performance.*

>   *Ha1(c)   Pro-activeness is related to SME performance.*

The relationship between pro-active behaviour and SME performance was examined to test hypothesis 1(c). The results of model 3 presented in Table 6.39 shows a significant positive relationship between pro-activeness and SME performance (β = 0.105*) and LnProfit (β = 0.083*) and no significant positive relationship with LnROA and LnROI. These findings may suggest that pro-activeness might be beneficial for firms targeting short term performance such as profit, but may need time to be reflected in long term performance such as ROA and ROI. This argument implies

that profit can be generated even by exploiting a short-lived opportunity which may not necessarily be sustainable enough to be reflected in long term performance measures. However, to confirm this argument, a longitudinal study needs to be planned in order to examine the relationship between pro-activeness, ROA and ROI as to observe changes on the nature of relationships occurring over time. It will also be of interest if future research identify the most reliable performance measures which may cater for both short and long term performance.

The positive relationship between pro-activeness and the overall SME performance supports previous results reported earlier on positive relationship between firm performance and pro-activeness (Keh *et al*., 2007:593). The positive relationship may suggest that as firms capitalize on pro-active behaviour, they exploit opportunities and generates profit before rivals impose competition on the same opportunities. Cakar and Erturk (2010:326) conclude that the ability to launch new products or services before competitors, is a key factor in gaining first mover advantages, achieve product success, capturing market share and increas the long term viability of the firm.

Lumpkin & Dess (2001:430) pointed that pro-activeness is a response to opportunities and is appropriate in a dynamic environment where environmental conditions are rapidly changing. The positive correlation between pro-activeness and the two individual dimensions of SER namely; customer orientation (r = 0.313**) and competitor orientation (r = 0.443**) presented in Table 6.21, signify the importance of an effective system of generating strategic market information for a pro-active firm. These findings imply that pro-active firms go to market, while well-informed about factors affecting customers and competitors behaviours, types of products and or services to be offered, as well as how and when they should be offered. It is through this behavior that a firm builds competitive advantage, which put the firm ahead of competitors in terms of performance. Supporting this observation Schindehutte *et al.* (2008:6) argued that in events where pro-active posture target latent needs, it is likely to create new markets and increase market shares.

The literature pointed out that the advantage obtained by firms, adopted proactive behaviour to include technological leadership, imposition of switching costs to

incumbent, which helps a firm to capture market share and achieve brand recognition due to the domination of the market (Lieberman & Montgomery, 1988:41; Cakar & Erturk, 2010:326; Li *et al.,* 2008:119). These features altogether enhance and sustain a firm's performance, which may also suggest that pro-activeness has a potential to create new markets that never existed before, or expand market share for the firm's advantage and sustain competitive advantage over the competitors. It is also possible to argue that pro-active firms do not act blindly in the market place; they respond to exploit market opportunities while already knowing what is required in the market. These arguments support the positive relationship between pro-activeness and SME performance.

Interestingly, Table 6.21 shows that the pro-activeness recorded significant negative correlation with the relational skills (r = -0.305**), internal communication (r = -0.244**), partners' knowledge (r = - 0.355**) and networking capability (r = − 0.308**) but positive correlation with the coordination (r = 0.313**). These findings suggest that a proactive firm is not likely to engage in relational skills, internal communication, partners' knowledge and networking capability in general. But it is likely to engage in coordination of resources and business activities. Among explanation for this might be the nature of pro-activeness that requires secrecy and surprise to the rivals. It is possible that engaging in relational skills, internal communication and partners knowledge that involves exchange of information, may leak the strategic information that may end up being received by rivals consequently threatening the competitive advantage that can be acquired through pro-active behaviour. However, results shows that coordination will still be crucial for pro-active behaviour for effective use of resources hence a positive relationship.

SUMMARY

These findings present evidence that supports the existence of a significant relationship between pro-activeness and SME performance, which provide adequate empirical evidence to reject the null hypothesis Ho(1c) and accept an alternative hypothesis Ha1(c) that state "*pro-activeness is related to SME performance*".

These findings suggest that in events where pro-active firms respond to opportunities identified through customer orientation and competitor orientation is likely to address the most feasible opportunities which are likely to be successful in the market because they address customers' challenges and or needs and at the same time they fill the market gap that has not been exploited by competitors. In so doing, pro-active firms are likely to create new markets, expand market shares and sustain the competitive advantage of the firm.

Also findings suggest that pro-active firms are unlikely to adopt relational skills, internal communication and partners' knowledge with the fear of jeopardizing competitive advantage due to the possibility of leakage of strategic information to competitors before seizing opportunities. However, pro-active firms may prefer to adopt coordination, possibly due to effective use of resources which account on performance.

4:     Risk taking

According to Monsen & Boss (2009:75), risk taking is a "tendency to take bold actions such as venturing into unknown new markets, committing large amounts of resources and borrowing heavily to pursue opportunities that have a reasonable likelihood of producing loses or significant performance discrepancies". The literature has long associated risk taking with a firm's performance (Keh *et al.,* 2007:593). The argument is based on the premise that on a perceived high risk business environment, few people are willing to take new initiatives and those who are willing are likely to generate more profit that enhance a firm's growth if their businesses succeed. In this case, one would expect a positive relationship between risk taking and SME performance as reported in the previous studies (Keh *et al.,* 2007:593). It is from this background, hypothesis 1(d) was formulated.

Ho1(d)   Risk taking is not related to SME performance.

Ha1(d)   Risk taking is related to SME performance.

Examining the relationship between risk taking and SME performance to test hypothesis 1(d), the findings presented in model 3 (Table 6.39) indicate that SME performance is strongly negative related to risk taking (β = -0.184**). Consistently, risk taking recorded a significant negative relationship with the LnProfit (β = -0.243**), LnROA (β = - 0.159**) and LnROI (β = - 0.125*). These findings suggest that the more firm perceive high risk environment the less it engages in profitable businesses. This is probably applicable in the business environment with less developed business support services and a weak regulatory environment where entrepreneurs feel less protected and avoid taking high risks. In the study area Tanzania is one case in point characterized by a weak regulatory environment and uncoordinated business support services (Ministry of Finance and Economic Affairs, 2008a:19; Ministry of Industry and Trade, 2003:2). Such environment has implication on the propensity of entrepreneurs to engage in risk ventures.

The literature indicates that a regulatory environment include laws, regulations and codified governmental policies that provide support and reduce the risk for the business (Ahlstrom & Bruton, 2002; Busenitz, Gomes, & Spencer, 2000; Li & Zhang, 2007). In the event that business environment is characterized by a weak regulatory environment and intense competition fuels unethical behaviour among entrepreneurs, firms fail to exploit new opportunities because innovations appears to be too risky (Tang & Hull, 2012:148). These findings may explain Tanzania's context in which data were collected that is frequently cited for the weak regulatory environment and business support services and as a result imitations and infringement of intellectual properties is the game of the day. However, further research to establish the relationship between environmental regulation, business support services and SME performance, might be beneficial to confirm this observation.

The findings presented in Table 6.21 shows that risk taking recorded significant positive correlation with pro-activeness (r = 0.424**) suggesting that pro-activeness is likely to happen when the perceived risk is high. However, the significant positive

correlation between pro-activeness, customer orientation ($r = 0.313^{**}$), competitor orientation ($r = 0.443^{**}$) and significant negative correlation between risk taking and customer orientation ($r = -0.349^{**}$) and competitor orientation ($r = -0.398^{**}$) presents an interesting relationship. These findings suggest that although pro-active behaviour takes place in a higher perceived risk environment, it is more likely when a pro-active firm is well informed about customers and competitors behaviours. These findings further suggest that customer and competitor orientation lowers the risk implied in the business. In view of these findings, it may suggest that the risk taking behaviour is driven by the information asymmetry amongst entrepreneurs. This argument implies that entrepreneurs who are informed more about market dynamics such as customers and competitor behaviours are likely to take a proactive stance, than those who are not.

SUMMARY

The recorded significant relationship between risk taking and SME performance provide adequate empirical evidence to reject the null hypothesis Ho1(d) and accept an alternative hypothesis Ha1(d) that state *"The risk taking is related to SME performance"*.

The significant negative relationship between risk taking and SME performance suggest that in events where firms perceive high business risk, it is unlikely to engage in profitable ventures. This might be due to the weak regulatory environment and un-coordinated support services in the study area that entrepreneurs feel unprotected to undertake business initiatives, which are normally associated with the risks. Also the negative correlation between risk taking customer orientation and competitor orientation presented in Table 6.21 hints that focus on customer orientation and competitor orientation lowers the perceived risk which subsequently fosters pro-active behaviour which is associated with SME performance. In this view, this study concludes that the pro-active behaviour among entrepreneurs is driven by the strategic market information asymmetry among entrepreneurs.

5:      Competitive aggressiveness

Competitive aggressiveness refers to a firm's propensity to directly and intensively challenge its competitors to achieve entry or improve competitive position to

outperform industry rivals in the market place (Lunmpkkin & Dess, 2001:431; Monsen & Boss, 2009:75). This implies that competitive aggressiveness is more of a response to rivals competitive threats or a posture of the firm to defend its competitive advantage or secure new competitive advantage over rivals. This background information leads to the formulation of the hypothesis 1(e).

Ho1(e)   *Competitive aggressiveness is not related to SME performance.*

Ha1(e)   *Competitive aggressiveness is related to SME performance.*

The relationship between competitive aggressiveness and SME performance was examined to test hypothesis 1(e). The results in Table 6.39 model 3 shows a highly significant negative relationship between the competitive aggressiveness and SME performance (β = - 0.157**), LnProfit (β = - 0.182**), LnROA (β = - 0.130**) and LnROI (β = - 0.134**). Lumpkin and Dess (2001:445) reported similar results in the relationships between competitive aggressiveness and sales growth, but observed a weak relationship in profitability and return in sales.

The negative relationship between competitive aggressiveness and SME performance suggests that as a firm puts more emphasis on a competitive aggressive strategy as a response mechanism to competitors, it is likely to lower its performance. Rauch *et al.* (2009:762) suggests that the context matters when interpreting dimensions of entrepreneurial orientation due to cultural difference. Competitive aggressiveness is a response to competitors and it takes different shapes from head on collision (undo the competitor) to massive price cut, spending aggressively compared to competitors on advertisement of products, services and quality improvement (MacMillan & Day, 1987). While competitive aggressive postures like "undo the competitor" can be well accepted in other cultures, in the Tanzanian context that emerged from socialist policies with cohesive attitude and behaviour, is not the case. This argument may partly explain why competitive aggressiveness recorded a strong negative relationship with SME performance.

However, there might be other reasons to explain the recorded negative relationship between competitive aggressiveness and SME performance. Tanzania's private sector is still at an infancy stage (life cycle) as it started recently following the structural adjustment and privatization of state-owned enterprises during the mid-

1990. The adoption of structural adjustment was a big shift in the socio-economic landscape of the country that opened doors for the private sector in the economic development. This is contrary to the socialist (*Ujamaa*) policy that undermined the role of the private sector that subsequently stunted the entrepreneurship culture (Mongula, 2004b:18; Temu & Due, 2000:684). The structural adjustment that led to the open market economy was a new era for entrepreneurship driven by the private sector in Tanzania. In this view, several opportunities are still opening up for entrepreneurs to take advantage of. As such, in this environment competitive aggressive posture, such as seeking market share at the expense of cash flow and profitability such as massive price cuts (Venkatraman, 1989), may not likely to be associated with high firm performance. Lumpkin and Dess (2001:446) support this argument by suggesting that "competitive aggressive is more appropriate in more mature industries/life cycle, where few opportunities are observed and competition is tense". In such environment competitive aggressiveness may enhance firms to defend strongly their competitive position relative to competitors.

In this regard, it is compelling to argue that the business competition experienced in Tanzania may not be the same as in other countries with different political backgrounds and cultural settings, where the competition is due to an inadequacy of opportunities because the industries have reached maturity. In Tanzania the industries are still at an early stage of development where opportunities are still opening up. The problem is the lack of entrepreneurial skills and experience amongst local entrepreneurs to withstand pressure of open market economy which allows free movement of goods and services, and entrepreneurs from other countries who are well experienced in business. This view is shared by other scholars who pointed out that Tanzania suffers from inadequate entrepreneurial skills to face competition from rivals (Ellis & Mdoe, 2003; Kristiansen *et al.,* 2005; Ministry of Finance and Economic Affairs, 2008a:19). This might be a time for Tanzania to build competitive capacity and entrepreneurial skills for entrepreneurs to be able to take advantage of unfolding opportunities and face challenges posed by a competitive environment.

SUMMARY

The results on the significant relationship between competitive aggressiveness and SME performance provide empirical ground to reject the null hypothesis Ho1(e) and accept an alternative hypothesis Ha1(e) that state "The *competitive aggressiveness is related to SME performance.*

However, two reasons are advanced to explain negative relationship between competitive aggressiveness and SME performance. The first reason might be the political background of the study area (Tanzania) that emerged from socialism which has a cohesive culture such as social values, attitude and behaviours, which may not welcome some of the competitive aggressive behaviours such as "undo the competitors". This attitude may affect the competitive aggressive posture to foster performance.

The second reason is that Tanzania has just opened its doors to the private sector to participate in business activities in an environment characterised by plenty of opportunities which are still unfolding. In such an environment where business are required to take advantage to generate profit and grow, a competitive aggressiveness posture such as a price cut may not be appropriate since it may jeopardize a firm's profit which is required for business growth.

6:      Relational skills

The relational skill is among individual dimensions of SER drawn from the networking capability. According to Marshall *et al.* (2003:248) relational skills include aspects as communication ability, self-reflection, conflict management skills, interpersonal skills, sense of justice and cooperativeness. These aspects are crucial in creating and sustaining relationships and build trust amongst networking partners. Welter and Smallbone (2011:116) support this argument by concluding that "trust is important for reliability of any exchanges, which is relevant for networking that involves exchange of strategic information resources and other capabilities to attain competitive advantage that leads to firm performance". Drawing from this conclusive remark, hypothesis 1(f) was formulated.

Ho1(f)   Relational skills is not related to SME performance.

Ha1(f)   Relational skills is related to SME performance.

In this view it was deemed necessary to examine the relationship between relational skills and SME performance to test hypothesis 1(f). Table 6.39 in model 3 shows that relational skill is significantly positive related to SME performance ($\beta = 0.109^{**}$), LnROA ($\beta = 0.143^{**}$) and LnROI ($\beta = 0.136^{**}$), and registered no significant positive relationship with LnProfit ($\beta = 0.012^{ns}$). These findings suggest that relational skills might be appropriate for long term performance measures such as ROA, ROI and the overall SME performance and may not be reflected in short term performance measures such as profit. The reason behind this argument is the fact that relational skills are responsible to create long term relationships. However, long term relationships require time to build trust and confidence among networking partners before the exchange of strategic information takes place and benefits are realized. In this case, benefits associated with relational skills might be realized and reflected in long term performance measures.

It is important to know that networking involves sharing of strategic competitive resources and capabilities; in this regard it requires trust and confidence among participating partners of which relational skills can account. Absence of inter-firm trust can seriously impact the exchange of resources and capabilities among networking partners. Kale *et al* (2000:225) pointed that trust reduces negotiation costs, facilitate high degree of learning and information or know-how exchanged between networking partners. Baron and Markman (2003) support this argument by pointing out that relational skills are a social competence, which are crucial for the management of the relationship that involves interpersonal exchange of resources and other capabilities. A firm with high relational skills is likely to build trust and sustain relationships that allow exchange or sharing of resources and capabilities that impact long term performance of a firm.

SUMMARY

The recorded significant positive relationship between relational skills and SME performance provide empirical support to reject the null hypothesis Ho1(f) and accept an alternative hypothesis Ha1(f) that state *"The relational skill is related to SME performance"*.

The significant positive relationship between relational skills, SME performance, LnROA and LnROI and no significant positive relationship with LnProfit suggests that relational skills might be appropriate for long term performance measures which may not be reflected in short term performance measures such as profit. The reason might be the fact that relational skills take time to build trust and confidence amongst networking partners to allow exchange of strategic resources and capabilities to take place.

7:     Internal communication

Internal communication is another individual dimension of SER drawn from networking capability that involves assimilation and dissemination of strategic information within the firm (Kale *et al.,* 2000:223). Song *et al.* (2010:565) emphasized the importance of information utilization to build a firm's competitive advantage. The literature shows that firms attain competitive advantage when implements strategies which competitors are unable to duplicate or find it too costly to try to imitate (Hitt *et al.,* 2007:4; Barney & Arika, 2005:140). Continuous monitoring of the environmental dynamics, customers and competitors behaviours and sharing strategic information of the firm sustain competitive advantage that subsequently enhances a firm's performance (Teece, 2007:1322). In this case there is a reason to believe that internal communication is related to a firm's performance. This background information result into hypothesis 1(g).

> *Ho1(g)   Internal communication is not related to SME performance.*

> *Ha1(g)   Internal communication is related to SME performance.*

The multiple regression analysis was employed to test hypothesis 1(g). Table 6.39, model 3 shows a highly significant positive relationship between internal communication and SME performance (β = 0.120**), LnProfit (β = 0.106**), LnROA

(β = 0.105*) and LnROI (β = 0.123**). These findings imply that firms perform better if encouraged to share strategic information within the firms. Internal communication is crucial in the dissemination of the strategic information and the learning of new capabilities within the firm. The information such as firm's resources and capability needs, potential and weaknesses of networking partners, are crucial to alert employees to identify new opportunities and new key areas to focus on during the period of networking relationship, in order to be able to maximize learning from partners and acquire the most relevant resources and capabilities to fill the gaps in their firms in order to build competitive advantage. This argument is supported by Johansson (2009:25) who pointed out that most small firms in a competitive environment acquire competence through learning from their market leaders. In this view, learning is an important aspect in building the competitive advantage of the firm of which internal communication can enhance.

Internal communication, also during the internal exchange of strategic information, helps a firm's members to identify new opportunities and pull together their efforts that contribute to a common objective. Teece (2007:1322) suggests that opportunities are detected by a firm when it is open to acquire and utilize new information and knowledge and the differential access and utilization of strategic information amongst firms may differentiate the ability to identify new opportunities. Keh *et al.* (2007:67) emphasizes that competitive advantage associated with strategic information depends on whether firms make the best use of the acquired information. The significant positive correlation between internal communication customer orientation (r = 0.168**), competitor orientation (r = 0.159**) and market orientation (r = 0.345**) confirms the argument that emphasis on market orientation, especially customer orientation and competitor orientation stimulates internal communication. This argument may suggest that internal communication is one way of effective utilization of strategic information acquired from beyond and within the firm's boundaries. Furthermore, these findings are supported by Sivadas and Dwyer (2000:40) who associated internal communication with the collaborative competence that contributes to the firm's performance.

SUMMARY

The highly significant positive relationship recorded between internal communication and SME performance provide empirical evidence to reject the null hypothesis Ho1(g) and accept an alternative hypothesis Ha1(g) that state *"internal communication is related to SME performance"*.

The positive relationship between internal communication and SME performance, LnProfit, LnROA and LnROI suggests that internal communication enhance exchange of strategic information within the firm that instil learning new capabilities amongst workers to foster long and short term performance.

8:      Partner's knowledge

This study considered that before engaging in any networking relationship, partners' knowledge is important for the fact that networking happens for a reason. It is a well thought relationship that requires networking partners to have partners knowledge before engaging in any relationship. Partner's knowledge enables firm to identify networking partners with the most appropriate resources and capabilities that are relevant to bridge the gap of resources and capabilities needed by their firms (Lee, Kelly, Lee, & Lee, 2012:2). Das and Bring-Sheng (2000) argued that firms with partners' knowledge can structure appropriate exchange mechanisms and governance structures that enhance the competitive advantage of the firm. This is in line with the frequently cited reasons for networking that allows firms to access resources they don't own or control but need to complement their own resource needs and capabilities (Song *et al.,* 2010:565; Dickson, Weaver & Hoy*,* 2006:488) that contribute to build a firm's competitive advantage. In this case partners' knowledge is likely to be related to SME performance. These arguments lead to the formulation of the hypothesis 1(h).

> *Ho1(h) Partners' knowledge is not related to SME performance.*

> *Ha1(h) Partners' knowledge is related to SME performance.*

The relationship between partner's knowledge and SME performance was examined to test hypothesis 1(h). Table 6.39, model 3 shows that a partner's knowledge

recorded a significant positive relationship with LnProfit (β = 0.083*) and no significant positive relationship with SME performance (β = 0.045^{ns}), LnROA (β = 0.038^{ns}) and LnROI (β = 0.012^{ns}). These findings imply that firms with potential partners' knowledge, before engaging in any networking relationships, are likely to identify resources and capabilities existing to a potential partner and evaluate relevance of these resources and capabilities to their firm's needs. In the course of the networking relationship, partner's knowledge enables a firm to acquire relevant resources and capabilities to fill resources and capability gaps and attain short term performance such as profit.

This study argues that partners' knowledge might be an appropriate strategy to support business growth at the growth stage of the business' life cycle. The growth stage in the business life cycle is the stage with remarkable growth and it requires a lot of resources to support fast pace of growth. Knowing whose partner has the right resources, places the firm at a strategic position to acquire and timely allocate resources to support the resources and capability needs of the firm.

SUMMARY

The fact that the partner's knowledge recorded no significant relationship with the overall SME performance, the findings provide inadequate empirical evidence to reject the null hypothesis Ho1(h) that state *"partner's knowledge is not related to SME performance"*. In other words, this study failed to reject the null hypothesis Ho1(h). The significant positive relationship registered between partner's knowledge and LnProfit and no significant positive relationship with SME performance, LnROA, and LnROI suggest that partners' knowledge might be appropriate for short term performance such as profit. This may suggest that partners' knowledge might be appropriate at the growth stage of a business' life cycle where profit and other resources are required to support fast-paced business growth. Knowing whose partner poses appropriate resources and capabilities to fill the needs of the firm, places a firm at a strategic position to acquire and sustain high profit.

9:      Coordination of resources and business activities

The coordination of business resources, within and beyond firm's boundaries was thought to be among factors that enabled effective and efficient utilization of firm's resources that could improve its performance. In this case, the assumption was that in any networking relationship, the well-coordinated use of resources improves firm performance. According to Hitt *et al.* (2001:486) firms' resources are in isolation unless strategically coordinated to benefit from their potential; otherwise the networking relationship may not always be beneficial. In this regard, it is assumed that coordination of business activities and resources is associated with the firm's performance. This argument leads to the formulation of the hypothesis 1(i).

> *Ho1(i)   Coordination is not related to SME performance.*

> *Ha1(i)   Coordination is related to SME performance.*

This study examined the relationship between coordination and SME performance to test hypothesis 1(i). Table 6.39, model 3 shows that coordination is significantly negative related to SME performance (β = - 0.084*) and LnProfit (β = - 0.087*) and have no significance negatively related to LnROA (β = - 0.076^{ns}) and LnROI (β = - 0.072^{ns}). These findings are contrary to what was expected. It was expected that the coordination will record a positive relationship with performance and possibly a significant relationship. However, the possible explanation for a significant negative relationship between coordination, SME performance and LnPRofit might be context specific. In a dynamic and competitive business environment where consumer needs, technological opportunities and competitor's behaviours, change continuously, it is possible that coordination is not positively associated with SME performance.

This study argues that coordination itself is a resource-consuming practice intended to integrate, build and reconfigure internal and external resources to cope with the fast paced environmental changes. Drawing from dynamic capability view, in dynamic environments, the speed of an environmental change is fast (Teece, 2007:1322), which implies that more resources are needed to support coordination in order to keep up with the speed of the environmental turbulence. As such, in more dynamic and competitive environments where events are changing fast and

competition is tense, firms are likely to adopt competitive aggressive strategies at the expense of profitability. This argument is supported by the significant negative correlation between coordination and competitive aggressiveness (r = - 0.187**) reported in Table 6.21, which suggest that in events where a firm adopt a competitive aggressive strategy, a low coordination should be expected. The reason behind this is that a competitive aggressive posture such as price cuts is associated with the profit reduction which may not support coordination activities. Putting more emphasis on coordination that requires, more resources is likely to drain the profit generated by the firm that has consequences on its performance.

However, future research is considered important to broaden our understanding on which context coordination of internal and external resources is beneficial to the firm. For example, it will be of interest to understand at which level in the continuum of the environmental dynamic coordination it can be beneficial to a firm or at which stage in a business lifecycle coordination is likely to yield positive results to a firm. Such findings will enhance efficient utilization of resources and optimize benefits from business ventures.

SUMMARY

As long as these findings recorded a significant relationship between coordination and SME performance, it provides adequate empirical evidence to reject the null hypothesis Ho(i) and accept an alternative hypothesis Ha1(i) that state "The *coordination is related to SME performance"*.

The negative relationship between coordination and SME performance suggests that coordination of a firm's resources may not necessarily be beneficial to a firm's performance. It depends on the context in which it is executed. These findings may suggest that in competitive and dynamic environment where customer needs, technological opportunities and competitors' activities are fast changing, firms are likely to adopt competitive aggressive strategies such as massive price cuts which may jeopardize firm's profit. In this view, emphasis on coordination which is resource consuming, may drain the profit generated by the firm.

7.2.3 Relationship Between Composite Dimensions Of SER And SME Performance

Findings on relationship between individual dimensions of strategic entrepreneurial response (SER) and SME performance presented variations in the nature of the relationship, even for the dimensions sourced from the same construct. For example while pro-activeness, risk taking, and competitive aggressiveness are sourced from entrepreneurial orientation, when examined, their relationship with SME performance pro-actively recorded a positive relationship while risk taking and competitive aggressiveness recorded a negative relationship. The same trend was recorded in dimensions of networking capability such that relational skill, internal communication and partner's knowledge which recorded a positive relationship with SME performance, while coordination recorded a negative relationship. However, dimensions of market orientation, both customer orientation and competitor orientation were positively related to SME performance.

Since the nine factors were drawn from three constructs, namely: market orientation, entrepreneurial orientation and networking capability, the three constructs will be referred to as the composite dimensions of SER. The variation on the nature of relationship between individual dimension of SER performance prompted another research question 2(ii) presented in section 7.1

Question 2(ii):   *Does the composite dimensions of SER presents a similar nature of relationship with SME performance?*

It was from this context this study created composite dimension of market orientation, entrepreneurial orientation, and networking capability and examined their relationship with the SME performance. The following section discusses the outcome of the relationship of each composite dimension of SER and the SME performance.

1:     The relationship between composite market orientation and SME performance

Although market orientation is a composite construct with three dimensions, namely: customer orientation, competitor orientation and inter-functional coordination (Nerver & Slater, 1990:21), in this study the measurement tool captured only two dimensions,

namely: customer orientation and competitor orientation. Possibly this is a good starting point for future research to refine the measurement instrument to be able to capture all dimensions and examine their suitability to measure SER and the nature of their relationship with SME performance. Market orientation is important to the success of the firm. According to Schindehutte *et al.* (2008:4) the market provides signals to both entrepreneurs and marketers regarding what value is needed, when it is needed, an how it should be delivered. This argument echoed by Li *et al.* (2008:116) and Zhou *et al.* (2005:54) that market orientation is helpful in improving a small firm's performance. These arguments lead to formulation of hypothesis 2(a):

> *Ho2(a)   Market orientation is not related to SME performance.*

> *Ha2(a)   Market orientation is related to SME performance.*

The results in Table 6.40 model 4, indicate that the relationship between market orientation, overall SME performance (β=0.697**), LnProfit (β=0.779**), LnROA (β=0.605**), and LnROI (β=0.591**) recorded a significant positive relationship. Previous studies reported similar findings of positive relationships between market orientation and firm performance (Kara *et al.,* 2005:112; Li *et al.,* 2008:128; Verhees & Meulenberg, 2004:147). The findings are consistent with the relationship between SME performance and individual dimensions of market orientation, namely: customer orientation and competitor orientation. The strong relationship between market orientation and performance could be attributed by the prevailing intense market competitive pressure triggered by the dynamic business environment. These findings support the argument posed by Li *et al.* (2006:106) that in a competitive environment firms tend to be much more market oriented to generate market intelligence that helps in strategic renewal to cope with the rapid change in the business environment.

Strategic market information increases the ability of firm to discover and exploit relevant opportunities due to a clear understanding of problems confronting customers and the actual market value required to fill the existing gap. Zhou *et al.* (2005:54) echoed a similar opinion that market orientation facilitates technical based innovations, which address the needs of the mainstream customers. Wicklund and Shepherd (2003:1308) emphasize that market knowledge is the source of innovation targeted to address problems confronting customers who are not able to articulate

their needs. These arguments may suggest that market orientation is the source of opportunities which leads to both radical and incremental innovation which are associated with a firm's performance. Viewing this way, it is compelling to speculate that sustaining market orientation is likely to build firms' opportunity seeking behavior, which is one of the key pillars of strategic entrepreneurship responsible for sustainable performance in a dynamic environment.

SUMMARY

The significant relationship between market orientation and SME performance provide evidence to reject null hypothesis Ho2(a) and accept an alternative hypothesis Ha2(a) that states *"market orientation is related to SME performance"*. The significant positive relationship between composite market orientation and SME performance is consistent with the relationship between SME performance and individual dimensions of market orientation, namely: customer orientation and competitor orientation.

The positive relationship between market orientation and SME performance suggests that market orientation offers the most feasible and relevant opportunities to address market gaps that if exploited, they are likely to be successfully in the market place. In this regard, sustaining market orientation culture in the firm, it is likely to build opportunity-seeking behaviour, which is one of the key pillars of strategic entrepreneurship responsible for sustainable performance in a dynamic environment.

2:     The relationship between composite entrepreneurial orientation and performance

Previous studies reported equivocal findings on the relationship between composite dimensions of entrepreneurial orientation and performance. While some studies reported positive relationship and acknowledges the importance of entrepreneurial orientation in a firm's performance (Lie *et al.,* 2008:1116; Schindehutte *et al.,* 2008:21; Keh *et al.,* 2007:605), some have failed to establish this relationship or find only a weak relationship (Walter *et al.,* 2006:557; Lumpkin and Dess, 2001:445). The inconsistence of the relationship is confirmed in this study when examining the

relationship between individual dimensions of entrepreneurial orientation and SME performance presented in Table 6.39.

It is from this background, this study considered important to develop a composite construct of entrepreneurial orientation and examine the nature of the relationship with SME performance. In view of this argument hypothesis 2(b) was formulated.

Ho2(b)   *Entrepreneurial orientation is not related to SME performance.*

Ha2(b)   *Entrepreneurial orientation is related to SME performance.*

The relationship between entrepreneurial orientation and SME performance was examined to test hypothesis 2(b). Table 6.40 model 5 shows that the composite entrepreneurial orientation is positively related to SME performance ($\beta=0.336^{**}$), LnProfit ($\beta=0.408^{**}$), LnROA ($\beta=0.291^{**}$) and LnROI ($\beta=0.257^{**}$) despite of the only pro-activeness recording a positive relationship and the two dimensions, namely: risk taking and competitive aggressiveness recording a negative relationship. These findings support previous studies that reported a positive relationship between entrepreneurial orientation and a firm's performance. (Keh *et al.,* 2007:605; Lie *et al.,* 2008:128).

Schindehutte *et al.* (2008:5) associated strong entrepreneurial orientation with the advantage-creating capability and a disruptive advantage destroying performance outcome. This argument implies that strong entrepreneurial orientation through innovation exploit opportunities that create competitive advantage of a firm. In events where firms take a pro-active stance to seize opportunities before competitors and introduce new products or services, it is likely to destroy the competitive advantage of incumbent. This argument is similar to the concept of "creative destruction" introduced by Schumpeter (1934) cited by Lumsdaine and Binks (2009:15) who conclude that entrepreneurs are associated with a wave of innovation or paradigm shifts that often cause the replacement of an existing technology.

With this background, this study argued that entrepreneurial orientation is more suited for advantage-creating (seeking) rather than opportunity-seeking as emphasized by previous studies (Ireland & Webb, 2007b:59; Schendel & Hitt, 2007:1; Ireland, 2007:9; Ireland *et al.,* 2003a:966). In examining the nature of

dimensions of entrepreneurial orientation namely pro-activeness innovation, competitive aggressiveness, risk taking and autonomy (Lumpkin & Dess, 1996:137), they are more oriented towards exploitation of opportunity than opportunity-seeking. The literature has linked exploitation of opportunity with advantage creation (Alvarez & Barney, 2002:90; Ireland *et al.,* 2003a:966; Ketchen *et al.,* 2007:373). The reason for this argument is that pro-active behavior is the response to opportunity, looking forward with anticipation to satisfy market demands (Lumpkin & Dess, 2001:434; Lumpkin *et al.,* 2009:56; Monsen & Boss, 2009:75). In the process an entrepreneurial oriented firm bears the risks and develop innovations to fill the market gaps. This process create a competitive advantage over competitors which need to be defended through continuous scanning of the environment and reconfigure a firm's resources in a way that cannot easily be copied by competitors (Teece, 2007:1319). In events where competition is tense, firms adopt a competitive aggressive posture as a response to competitors' actions in an effort to protect already developed competitive advantage.

Viewing entrepreneurial orientation in this perspective, this study argues that a sustained entrepreneurial oriented culture in a firm is likely to create "advantage-seeking" behavior essential to sustain a firm's competitive advantage.

SUMMARY

The highly significant relationship between entrepreneurial orientation and SME performance provide evidence to reject the null hypothesis Ho2(b) and accept an alternative hypothesis Ha2(b) that state "The e*ntrepreneurial orientation is related to SME performance"*.

The positive relationship between entrepreneurial orientation and SME performance suggest that an entrepreneurial oriented firm driven by pro-active behaviour respond to exploit opportunities before competitors to create a competitive advantage. In this regard, one would suggest that sustained entrepreneurial orientation in a firm builds advantage-seeking behaviours crucial for a competitive advantage over competitors.

3:     Relationship between composite networking capability and SME performance

Networking has long been associated with the sharing of resources, capabilities, technologies, and access to market (Dickson & Weaver, 2011:126; Welter & Smallbone, 2011:112; Nieto & Santamaria, 2010:62; Hitt *et al.,* 2007:263). This strategy is crucial especially for firms like SMEs which are confronted by resource scarcity. The literature support the argument that networking allows firms to access resources they don't own or control, but are necessary for a firm's competitive advantage (Song *et al.,* 2010:565; Dickson *et al.,* 2006:488). It is also acknowledged that networking is crucial to share risk and resources in capital intensive ventures or in an environment with weak regulatory frameworks where entrepreneurs feel less protected (Hitt *et al.,* 2007:239). However, Hitt *et al.* (2007:240) argues that not all networking are successful, in fact most networking fail. Some of the reasons for failure are incompatible partners and conflicts between partners. In this view this study include networking capability which is the ability to initiate, sustain and utilize inter-organizational relationships with various external partners (Walter *et al*., 2006:541). In this regard, this study considers that networking capability can resolve these weaknesses that may lead into networking failure. It was from this context hypothesis 2(c) was advanced.

> *Ho2(c)   Networking capability is not related to SME performance..*

> *Ha2(c)   Networking capability is related to SME performance.*

The relationships between networking capability and SME performance was examined to test hypothesis 2(c). Model 6 in Table 6.40 presented a significant positive relationship between networking capability, SME performance (β=0.276**), LnRrofit (β=0.374**), LnROA (β=0.213**) and LnROI (β=0.203**). These findings suggest that a networking capability is a strategic orientation for a resource constrained firm to complement resource needs. SMEs that are constrained by resources may benefit from networking if they build networking capabilities by acquiring necessary skills like relational skills, internal communication, coordination and partners' knowledge.

Firms with quality elements of networking capabilities such as relational skills, internal communication, coordination and partners' knowledge are likely to benefit from networking relationship by improving firms' SME performance, profits, ROA and ROI. Through relational skills a firm has conflict resolution skills, interpersonal skills, communication abilities, a sense of justice and cooperation (Marshall *et al.,* 2003:248). These elements are core values in creating trust among networking partners to allow smooth exchange of strategic capabilities. Partners' knowledge enables firms to understand the potentials and weaknesses of potential partners and be able to identify the right partner with compatible resources and capabilities intended to fill the resources and capability gap. The coordination skills facilitate efficient utilization of resources obtained from within and beyond a firm's boundaries and allocate them to the most feasible activities with potential to build a competitive advantage of the firm. The internal communication ensures sharing of strategic information and other capabilities and provides a learning ground for employees to build competitive advantage that enhance firm performance.

The significant negative correlation between networking capability and risk taking ($r = -0.340^{**}$) suggests that networking capability reduces the risk implied in the business initiatives. This may also suggest that as firms build networking capability, it is likely to strengthen its capacity to access strategic resources from partners, disseminate within the firm where employees learn new capabilities to attain a competitive advantage. Drawing from dynamic capability Teece (2007:1339) argues that favourable environment for learning new capabilities from outside as well as within the firm, is critical to business performance. In this case, internal communication can build internal competence through exchange of strategic information acquired from outside the firm and/or within the firm. The exchange of strategic information enables employees to acquire new knowledge, internalize and apply to build competitive advantage. The built competence reduces the risk perception as entrepreneurs tend to examine the level of risk, based on the capabilities at hand.

SUMMARY

The significant positive relationship between networking capability and SME performance provides adequate evidence to reject the null hypothesis Ho2(c) and accept an alternative hypothesis Ha2(c) that state "The networking capability *is related to SME performance*".

The positive relationship between networking capability and SME performance suggests that the networking capability is a strategic orientation for resource constrained firms to access and complement resources and capability needs. However, the negative correlation between networking capability and risk taking suggests that firms, with the emphasis on networking capability, are likely to lower the perceived risk. This is due to the fact that networking capability builds competence through acquiring, while learning new capabilities to give firm a competitive advantage that lowers the perceived risk in the business venture.

7.2.4 Amount Of Variance Explained In SME Performance

After examining the relationship between SME performances, individual and composite dimensions of SER, the sequential multiple regression was further used to examine the amount of variance explained in SME performance by scores of the composite dimensions of SER and to examine the amount of variance explained in SME performance by the interaction of the composite dimensions of SER. The next sections discuss the outcome of the findings.

7.2.4.1 Amount of variance explained by dimensions of SER

Previous studies reported equivocal findings on the relationship between SME performance and the composite dimensions of SER, namely: market orientation, entrepreneurial orientation, and networking capability. Since previous studies reported these composite dimensions to vary with the context (Shindehutte *et al.*, 2008:11; Morris & Kuratko, 2002), it was imperative to examine in Tanzania context where data were collected. The environment that presents a shift from protective policies with a socialist background that stunted the entrepreneurship culture and private businesses to the open market policy environment that promotes the private

sector and entrepreneurship as drivers of economic growth (Mbeki, 2005:3; Nieman & Nieuwenhuizen, 2009:9).

In this case, this study was set out to examine how much variance in SME performance is explained by the composite dimension of SER in order to answer research question 3 presented in section 7.1.

Question 3: *How much variance in SME performance is explained by scores of the composite dimensions of SER?*

With this background, this study needs to confirm the following hypotheses.

Ho3(a)   *Market orientation does not explain significant amount of variance in SME performance.*

Ha3(a)   *Market orientation explain significant amount of variance in SME performance.*

Ho3(b)   *Entrepreneurial orientation does not explain significant amount of variance in SME performance.*

Ha3(b)   *Entrepreneurial orientation explain significant amount of variance in SME performance.*

Ho3(c)   *Networking capability does not explain significant amount of variance in SME performance.*

Ha3(c)   *Networking capability explain significant amount of variance in SME performance.*

In view of the above, three models (Model 4, 5 & 6) of simple regression analysis were set out to examine how much variance in SME performance, LnProfit, LnROA, and LnROI are explained by scores of market orientation, entrepreneurial orientation, and networking capability (composite dimensions of SER) (Table 6.40). The subsequent sections present the amounts of variance explained in SME performance by the composite dimensions of SER.

1:    Amount of variance explained in SME performance by market orientation

The amount of variance explained in SME performance was determined by examining the R square (R^2) and F-ratio. According to Pallant (2007:158) and Field (2010:202) the R square (R^2) in the regression, measures the amount of variance in the outcome variable explained by the predictors, while the F-ratio tests if the amount of variance explained (R^2) in the outcome variable is significant. In this view, model 4 in Table 6.40, when only market orientation was considered, shows that the market orientation explained 48.6%, 60.7%, 36.6% and 34.9% of variance in SME performance, LnProfit, LnROA and LnROI, respectively. The significant F-ratio at $p<0.01$ in model 4 indicates that market orientation explained significant amounts of variance in SME performance, LnProfit, LnROA and LnROI. The significant amounts of variance explained in SME performance by market orientation may also imply that if we could measure the level of market orientation by 100 percent, we could be able to explain accurately by 48.6 percent the level of SME performance.

In light of these findings, this study argues that the firm's emphasis on market orientation is a strategic choice to create a pool of potential opportunities when successfully exploited, leads to a firm's competitive advantage. Teece (2007:1324) confirms this observation by arguing that the "probability that innovation will be successful commercially relies on how a developer of innovation understands the needs of customers". This argument suggests that market orientation generate information that leads to identify the most feasible and relevant opportunities targeting to address outstanding customers' needs. In this case, sustained culture of market orientation in a firm is likely to build opportunity-seeking behaviour that continuously generates strategic information which helps to create innovation as a response to fill market gaps.

These findings support a previous argument that market orientation facilitates to improve creativity and innovation by offering more value to customers (Zhou *et al.,* 2005:54; Keh *et al.,* 2007:607). Consistently, the literature suggests that market knowledge increases a firm's ability to discover and exploit opportunities through introduction of innovative products and services (Tang & Murphy, 2012:41). This is possible due to the fact that customer orientation exposes challenges confronting customers which in most cases constitute real market opportunities that form a

starting point for entrepreneurs to create new discoveries in the effort to address those challenges. Loasby (2010:1302) supports this argument and emphasized that problem confronting customers which never found solutions form a potential source of opportunities. These arguments emphasized a need to go beyond articulable needs when generating strategic market information, which is the focus of market orientation.

Examining the adjusted R^2 in model 4, it shows a slight decline of 0.002 (0.2%) from the R^2 value. This suggest that if the data were collected from the population rather than a sample, the amount of variance explained in SME performance by market orientation could be less by 0.2 percent. This study considers that a difference of 0.2 percent is small to limit generalization of the findings beyond the sample. In other words, these findings can confidently be generalized to the entire population of interest.

SUMMARY

The empirical results presented enough evidence to reject the null hypothesis Ho3(a) and accept an alternative hypothesis Ha3(a) that state *"market orientation explain significant amount of variance in SME performance"*.

The significant amount of variance explained in SME performance may suggest that market orientation is amongst predictors that explain SME performance, profit, ROA and ROI well. It also implies that market orientation generates the most feasible and relevant strategic information which highlights the market gaps of which, when successful exploited, are likely to offer products and services that are acceptable to customers.

2:      Amount of variance explained in SME performance by entrepreneurial orientation

The variance explained in SME performance by the entrepreneurial orientation, was presented in model 5 (Table 6.40). Model 5 shows that when only entrepreneurial orientation is included in the model, it explained 11.3%, 16.6%, 8.4% and 6.6% of variance in SME performance, LnProfit, LnROA and LnROI, respectively. The significant F-ratio at $p < 0.01$ suggests that the model fitted data and entrepreneurial

orientation well, which accounted for a significant amount of variance in the outcome variables namely SME performance, LnProfit, LnROA and LnROI. These findings also may suggest that if we could measure the level of entrepreneurial orientation accurately by 100 percent, we could be able to explain accurately the level of SME performance by 11.3 percent.

These findings suggest that although the amount of variance explained in the overall SME performance and the three measures of SME performance, namely: LnProfit, LnROA and LnROI were significant when only entrepreneurial orientation was included in model 5, this amount is low compared to the amount of variance accounted for in SME performance by market orientation (Table 6.40, model 4). These findings may suggest that market orientation is the best predictor to explain SME performance compared to entrepreneurial orientation. This may not necessarily suggest low level of entrepreneurial orientation in the firm. However, Tang *et al.* (2008) reported that entrepreneurial orientation has a U shape, which implies that it changes over time along with the growth cycle. This provides an opportunity for further research to examine how both entrepreneurial orientation and market orientation varies over time along the growth trajectory. It will be interesting to examine the trends of changes occurring over time in the growth cycle of which the result will add value to understand which strategy is appropriate at a certain stage of the business life cycle.

The adjusted R^2 for SME performance in Table 6.40 model 5, shows a slight decline by 0.003 or 0.3% for SME performance from the R^2 square computed from the sample. This suggests that if data were collected from the whole population rather than a sample the estimated variance could be less by 0.3% from what it is reported in this study. Such a small percent of variation suggests that the conclusion drawn from this study can be generalized across the population of interest.

SUMMARY

As long as entrepreneurial orientation explained significant amounts of variance in SME performance, these findings provide adequate empirical evidence to reject the null hypothesis Ho3(b) and accept an alternative hypothesis Ha3(b) that state *"entrepreneurial orientation explain significant amount of variance in SME performance"*.

These findings revealed that although entrepreneurial orientation explained significant amount of variance in SME performance, this amount is relatively low compared to what is accounted for by market orientation. This may not necessarily imply low level of entrepreneurial orientation; it might be explained by the dynamic nature of entrepreneurial orientation that varies overtime along the business growth cycle.

3:     The amount of variance explained in SME performance by networking capability

The amount of variance explained in SME performance by the networking capability was also examined to test hypothesis 3(c). Model 6 in Table 6.40, when only networking capability was considered, was able to explain 7.6%, 14%, 4.5% and 4.1% of SME performance, LnProfit, LnROA and LnROI, respectively. These findings suggests that if the study gauge and understand the firm's level of networking capability by 100 percent it is possible to explain accurately the amount of variance in SME performance by 7.6 percent and the remained 92.4 percent of variance can be explained by other factors that were not included in the model. Comparing with the amount of variance explained by market orientation and entrepreneurial orientation, it is clear that networking capability explained the least amount of variance in SME performance.

However, the adjusted $R^2 = 0.073$ declined by 0.003(0.3%) from the $R^2 = 0.076$ which is considered acceptable for generalization of the conclusions of this study to the entire population of interest.

SUMMARY

The empirical results indicate that the networking capability explained significant amount of variance in SME performance, which provide sufficient empirical evidence to reject the null hypothesis Ho3(c) and accept an alternative hypothesis Ha3(c) that state *"networking capability explained significant amount of variance in SME performance"*.

However, comparing the amounts of variance explained in SME performance by the networking capability from what was explained by the market orientation and entrepreneurial orientation, it is clear that networking capability explained the least amount of variance.

7.2.4.2 Amount of variance explained by interactions of dimensions of SER

The results in Table 6.40 model 4, 5 and 6 shows that market orientation, entrepreneurial orientation and networking capability, respectively explained significant amounts of variance in SME performance when considered separately. This raised the fourth research question presented in section 7.1.

Questions 4: *Is there interaction among the composite dimensions of SER? And whether these interactions explain significant amount of variance in SME performance?*

In this regard, it was deemed necessary to examine if there is a synergic relationship among dimensions of SER, namely: market orientation, entrepreneurial orientation, and networking capability and if the interaction of the dimensions account for a significant amount of variance in SME performance. The analysis is aimed at testing hypothesis 4(a) and 4(b).

Ho4(a) *Interaction of market orientation and entrepreneurial orientation does not explain significant amount of variance in SME performance.*

Ha4(b) *Interaction of market orientation and entrepreneurial orientation explain significant amount of variance in SME performance.*

The interaction between market orientation and entrepreneurial orientation were examined to test hypothesis 4(a). Model 8 in Table 6.41 shows an increase in $R^2=0.498$ in SME performance as a result of interaction between market orientation and entrepreneurial orientation compared to $R^2=0.486$ in model 7, Table 6.41 when only market orientation was considered. This suggests that the interaction of market orientation and entrepreneurial orientation improves the ability of the model to explain the amount of variance in SME performance. The recorded significant F-ratio at $p< 0.01$ for the interaction of market orientation and entrepreneurial orientation in model 8, Table 6.41 suggests that the model was able to fit the interaction between the two dimensions of the SER well and explained significant amounts of variance in the SME performance. These findings may also imply that in events where firms combine market orientation and entrepreneurial orientation, it improve the ability to predict the amount of variance that can be explained in the SME performance.

To identify the individual contribution of the two dimensions of the SER, namely: market orientation and entrepreneurial orientation in the amount of variance explained in SME performance, this study examined the R^2 that explain collective amounts of variance explained in SME performance by the interaction of market orientation and entrepreneurial orientation, R^2 change and the F-ratio change which represents a unique amount of variance explained in SME performance as a result of adding an entrepreneurial orientation in the model. Model 8, Table 6.41 shows that the variance explained by interaction was $R^2= 49.8\%$ of this amount the R^2 change 0.012 and significant F-ratio change at $p< 0.01$ suggests entrepreneurial orientation explained significantly 1.2% of variance in the total variance, explained by the interaction in the SME performance and the difference of 48.6% is explained by market orientation. Consistently, the Beta (β) value and t-statistics as recommended by Pallant (2011:161) and Field (2009:239) in Table 6.41 model 8 shows that market orientation recorded relatively higher and significant β-value and t-statistics compared to entrepreneurial orientation in SME performance. These findings suggest that although both dimensions accounted significant contributions in SME performance, market orientation had a relatively bigger contribution compared to entrepreneurial orientation.

This may suggest that market oriented firms generate market intelligence pertaining to change in customers' and competitors' behaviours, identify current, future, and latent needs of customers, and the strengths and weakness of competitors. This strategic information is crucial to identify unsaved market demands. Zhou *et al.* (2005:54) pointed out that market orientation unearth problems, confronting customers, that form a basis for potential opportunities where entrepreneurial firms based on these opportunities create innovations to offer value to customers. Loasby (2010:1302) supports this argument suggesting that problems can be a source of opportunities if viewed in a positive way in which any response intended to solve the identified problem is likely to be associated with innovation.

In light of the above, these findings may suggest that market orientation generates strategic information that form a seedbed of opportunities from which entrepreneurial firms use entrepreneurial mindsets to analyse the information, identify the most feasible opportunities and pro-actively take risks implied to seize these opportunities through innovations as a response to address customers' needs or challenges. Although innovation was not captured by the measurement tool in this study, previous studies associated successful innovation in SMEs with good performance (Cakar & Erkurk, 2010:325). First mover advantage is associated with proactive behaviour to achieve product success, capturing market share and increase the long term viability of the firm (Alloca & Kessler, 2006:326) before competitors imitate technology or processes to produce the same products or offer the same services. In this view, entrepreneurial oriented firms, driven by first mover advantage, focuses to fill market gaps identified by market orientation.

While previous studies emphasized entrepreneurial orientation as responsible for opportunity seeking (Ireland & Webb, 2007b:59; Ireland, 2007:9; Ireland *et al*., 2003a:966), this study argues that previous studies underplayed the role of market orientation on opportunity seeking behaviour. This study views entrepreneurial orientation as more driven toward opportunity exploitation which is more advantage seeking than opportunity seeking. The proactive behaviour in entrepreneurial orientation is associated with a response to fill market gaps through a series of innovation identified through market orientation. Lumpkin and Dess (2001:434) make this clear by stating, proactive "refers to how firms relate to market opportunities by

seizing initiatives and leading in the marketplace. On the other hand the innovations developed to fill the market gaps is a response to exploit opportunities that subsequently build the competitive advantage of the firm. Hitt *et al.* (2007:4) confirms this argument, by stating that a firm has competitive advantage when it implements a strategy that competitors are unable to duplicate, or find too costly to imitate.

However, if competitive advantage is not defended by incumbent, with time competitors are able to copy or imitate. In this case, this study argues that once entrepreneurial oriented firms create competitive advantage through innovation, they take a competitive aggressive posture to defend their firm's competitive advantage against competitors who enters to compete in the same industry or as a strategy to sustain competitive advantage. These arguments suggest that entrepreneurial orientation is more oriented towards opportunity exploitation, which creates and sustain a competitive advantage of a firm. In this view, a sustained entrepreneurial orientation culture in a firm is likely to create advantage seeking behaviour essential to sustain a competitive advantage. But the sustainability of competitive advantage depends on continuous opportunity seeking which relies on the market orientation through generation of market information. This argument may also explain the recorded highly significant correlation between market orientation and entrepreneurial orientation (r = 0.340**) in Table 6.21. This suggests that market orientation and entrepreneurial orientations are related constructs which work together to sustain SME performance.

While entrepreneurship literature has not given much attention on market orientation with the argument that entrepreneurial orientation through innovation and pro-active behavior is also able to create new markets by being the first to offer new products or services (Li *et al.,* 2008:119), this study argues that pro-activeness and innovation cannot replace the role played by the market orientation in opportunity seeking. The pro-activeness and innovation are responsive to strategic market information in an effort to fill market gaps identified through market orientation. It should be clear that an entrepreneur do not act blindly, but are driven by opportunities. Opportunities are gaps left in the market by the marketers, in this regards, market orientation is well placed to generate information which leads to identify these gaps and pro-activeness is a response to fill these gaps through innovation. Viewing it this way, will imply that

while pro-activeness is a response to opportunities, innovation is a means to fill the market gaps.

SUMMARY

The significant amount of variance explained in SME performance by the interaction of market orientation and entrepreneurial orientation provide adequate evidence to reject the null hypothesis Ho4(a) and accept an alternative hypothesis Ha4(a) that states "*interaction of market orientation and entrepreneurial orientation explain significant amount of variance in SME performance*".

This shows that whenever entrepreneurs adopt a proactive behavior to develop innovations, it is the first response to seize opportunity in the market place to fill market gaps before competitors. In this case, one will say market orientation generates strategic market information which shows market gaps or opportunities. These market gaps signals a response from the entrepreneurial orientation through pro-activeness and innovation which is a means to fill market gaps, a process that leads to competitive advantage. In this case, the sustainability of the competitive advantage will depends on how the two strategies market orientation and entrepreneurial orientation are sustained to foster simultaneous opportunity seeking behaviour and advantage seeking behaviours.

The literature indicates that market orientation and entrepreneurial strategies requires resources for effective implementation (Covin & Slevin, 1991:15; Ireland *et al.,* 2009:33). However, based on the fact that SMEs are constrained with resources (Kropp & Zolin, 2005:1; Verhees & Meulenberg, 2004:137), which may limit execution of the two strategies, this study considered networking strategy as an appropriate strategy for firms confronted by resource scarcity to access resources from networking partners. But due to the fact that networking may not always be beneficial, especially when potential partner raise suspicion of losing strategic information and competences to partners (Kale *et al.*, 2000:232), this study assumed that to benefit from networking, a firm should have the ability to initiate and maintain the relationship that has mutual benefits amongst networking partners. According to Walter *et al.* (2006:541), such ability is referred to as networking capability that is

constituted by four dimensions namely: relational skills, internal communication, coordination and partner's knowledge.

While previous studies have reported a positive relationship between networking and SME performance (George *et al.*, 2001:280), according to the literature review, no study has examined the interaction between networking capability, and the two SER composite dimensions, namely market orientation, and entrepreneurial orientation. In this regard, amongst other reasons, this study was planned to fill the gap by answering the fourth research question presented in section 7.1, which is whether there is a synergic relationship among the three composite dimensions of SER; market orientation, entrepreneurial orientation, and networking capability and if such interaction account for significant amounts of variance in SME performance. It is from this context the hypothesis 4(b) was formulated.

> *Ho4(b)*   *Interaction of market orientation, entrepreneurial orientation, and networking capability does not explain significant amount of variance in SME performance.*

> *Ha4(b)*   *Interaction of market orientation, entrepreneurial orientation, and networking capability explain significant amount of variance in SME performance.*

The amount of variance explained in the overall SME performance by the interaction of market orientation, entrepreneurial orientation and networking capability was examined to test hypothesis 4(b). The R^2=0.501, with the significant F-ratio at p< 0.01, suggests that model 9 on Table 6.41 fitted the interaction of the three dimensions of SER well and explained significant amounts of variance in SME performance. However, the R^2 change = 0.016, and F-ratio change = 12.868, for model 9 were only significant at p< 0.01 for LnProfit and were not significant for the overall SME performance, LnROA and LnROI. This suggests that the networking capability accounted significant amounts of variance only in Lnprofit. Since the networking capability explained significant amounts of variance in SME performance, LnProfit, LnROA and LnROI, when considered alone in Table 6.40 model 4, it suggest that the amount of variance explained by the networking capability was overshadowed by the interaction of market orientation and entrepreneurial orientation.

This study speculates that the reason behind this behaviour is that networking capability, being responsible for initiation and sustaining strategic relationship with networking partners, may need time to realize its benefits. This might be attributed by the fact that a firm which intends to network, requires to study and understand partners with relevant resources and capabilities that match the firm's needs. The second step is for a firm to build trust among partners so that they are willing to share strategic resources and capabilities. All these aspects require time to be established before benefits are realized. In view of these arguments, it is possible that when a firm engages in market orientation and entrepreneurial orientation, the benefits of networking capability may lag behind due to the nature of the process it goes through to establish a strategic relationship. Since this study adopted a cross sectional research design, it may not be able to capture the benefits that can be offered by the networking capability in the long run.

In light of the above, it might be of interest for future research to carry out a longitudinal study and examine the way networking capability varies over time and the way it relates with the market orientation and entrepreneurial orientation. This will broaden our understanding on the benefits of networking capability that may unfold over time. This is crucial because the literature has indicated that entrepreneurial orientation has a U shape, which implies that it changes along the industry life cycle and it is not linear as it used to be conceptualized (Tang *et al.,* 2008). Since entrepreneurial orientation and market orientation are resource consuming strategies and resource constrained SMEs may adopt networking to complement resource needs, it might be of interest to understand how networking capability behaves as entrepreneurial orientation varies over time.

These findings may also suggest that a combination of three composite dimensions of SER enrich our understanding on how a firm can attain simultaneous opportunity seeking and advantage seeking behaviour to sustain a competitive advantage. It will be of interest, if future research explores the context in which entrepreneurs decide to use a certain combination of strategies. This will throw light on decision making when an entrepreneur is exposed to a certain context to know which combination of strategies is appropriate to respond to a given environmental challenge.

SUMMARY

The significant amounts of variance explained in SME performance provide empirical evidence to reject the null hypothesis Ho4(b) and accept an alternative hypothesis Ha4(b) that state *"interaction of market orientation, entrepreneurial orientation, and networking capability explain significant amounts of variance in SME performance"*.

Despite of networking capability accounting only significant amounts of variance in LnProfit in the interaction with market orientation and entrepreneurial orientation, it is argued that its benefits in other long term performance measures such as LnROA and LnROI may be realized over time, hence a need to carry out a longitudinal research design and examine how the networking capability relates with the other dimensions in the business life cycle and monitor benefits associated with the networking capability as they unfold over time.

7.2.5 Control The Influence Of Firm Size, Type Of Industry And Level Of Education

The demographic variables in several occasion reported to confound the relationship between independent and dependent variables. For example, previous studies identified a firm size (Rauch *et al*., 2009:781), age of the firm, and type of industry to influence firms' growth (Verhees & Meulenberg, 2004:147; Walter *et al*., 2006:554). In the case of this study, a set of confounding variables (gender, age of onwers or managers, and level of education of owner/manager, age of firm, the firm size, and type of industry) were identified and subjected in Multiway ANOVA to examine their influence in the individual dimensions of SER, namely: customer orientation, competitor orientation, pro-activeness, risk taking, competitive aggressiveness, relational skills, coordination and partners knowledge (Table 6.31 – Table 6.33).

During the analysis, three demographical variables namely firm size, type of industry, and level of education of owners/managers were identified to have significant influence in the individual dimensions of SER (Table 6.31 – Table 6.33). Since the individual dimensions of SER were combined to form composite dimensions of SER

and the composite dimensions of SER accounted significant amounts of variance in SME performance (Table 6.40 & Table 6.41), it raised another question.

Question 5: *If demographic variables such as firm size, type of industry and level of education of owners/managers are controlled, is the three composite dimensions of SER, namely: market orientation, entrepreneurial orientation and networking capability still able to explain significant amounts of variance in SME performance?*

To answer this question hypothesis 5(a), 5(b) and 5(c) were advanced.

Ho5(a)   *Firm size has no influence on the total amount of variance explained in SME performance by the collective dimensions of SER.*

Ha5(a)   *Firm size has influence on the total amount of variance explained in SME performance by the collective dimensions of SER.*

Ho5(b)   *Type of industry has no influence on the total amount of variance explained in SME performance by the collective dimensions of SER.*

Ha5(b)   *Type of industry has influence on the total amount of variance explained in SME performance by the collective dimensions of SER.*

Ho5(c)   *Level of education of owner/manager has no influence on the total amount of variance explained in SME performance by the collective dimensions of SER.*

Ha5(c)   *Level of education of owner/manager has an influence on the total amount of variance explained in SME performance by the collective dimensions of SER.*

The sequential multiple regression analysis controlled the influence of the demographic variables namely firm size, type of industry and level of education of owner/manager in SME performance. Model 10 in Table 6.42, that involved only the

demographic variables namely firm size, education, type of industry, shows that the demographical variables collectively explained 22.7% of variance in SME performance, 23.7% in LnProfit, 23.8% in LnROA and 23.7% in LnROI. The significant F-ratio suggests that the model fitted data (demographic variables) well and explained significant amounts of variance in SME performance. Of the three demographic variables, the significant beta value (β= - 0.377**) for a firm's size and the level of education (β = 0.482**) of owners/managers suggests that they accounted significant amounts of variance in SME performance. With the highest t-statistics (t = 8.115) in the level of education of the owners/managers indicating that the level of education accounted more variance compared to a firm's size.

The negative beta (β) value recorded between firm size and the SME performance implies that small size firms registered higher performance than larger firms (Table 6.42 model 10). Moreno and Casilla (2007:82) observed similar paterns and reported that small firms grow faster than their counterpart larger firms. A possible explanation for this observation might be that the small firms are not tied with technological inertial and bureaucracy, which are common in larger firms. As a result, in dynamic environment where events are changing fast, small firms are flexible in decision making to take advantage of emerging opportunities created by the dynamic environment that leads to better performance compared to larger firms.

Examining the influence of demographic variables in the ability of dimensions of strategic entrepreneurial response, namely: market orientation, entrepreneurial orientation, and networking capability to account for the amounts of variance in SME performance, model 11, 12 and 13 were introduced while controlling the effects of the demographic variables, firm size, type of industry and the level of education of owners/managers. This was intended to rule out the influence of the demographical variables in the amounts of variance explained in SME performance by the dimensions of SER, namely: market orientation, entrepreneurial orientation and networking capability.

The R^2 change (ΔR^2) and significant F–ratio change in Table 6.42 model 11 (ΔR^2= 0.352, ΔF = 231.786, p< 0.01) and model 12 (ΔR^2= 0.013, ΔF = 8.949, p< 0.01) indicates that despite of controlling the influence of a firm's size, type of industry and

level of education of owners/managers, the market orientation and entrepreneurial orientation, respectively were able to account for a significant amount of variance in SME performance. However, the R^2 change (ΔR^2) ($\Delta R^2 = 0.011$) and significant F–ratio change ($\Delta F = 9.361$, $p < 0.01$) in Table 6.42 model 13, shows that networking capability was able to explain significant amounts of variance in LnProfit and no significant amounts of variance in the overall SME performance, LnROA and LnROI. These findings followed similar paterns of results presented in Table 6.41 model 9, before controlling the influence of a firm size's, type of industry and level of education, suggesting that the variance explained in the overall SME performance and the three measures of performance, namely: LnProfit, LnROA and LnROI by the dimensions of SER is irrespective of the level of education of the owner/manager, the firm's size, and type of industry. These findings generally implies that although a firm's size and the level of education of owners/managers accounted significant amounts of variance in SME performance, it had little influence on the amount of variance explained by the dimensions of SER.

SUMMARY

From these findings it can be concluded that the composite dimensions of SER were able to explain significant amounts of variance in SME performance irrespective of the firm's size, type of industry, and level of education of the owner/manager. With these findings:

This study failed to reject null hypothesis Ho5(a) that state *"the firm size has no influence on the total amount of variance explained in SME performance by the collective dimensions of SER"*.

This study also failed to reject the null hypothesis Ho5(b) that state *"the type of industry has no influence on the total amount of variance explained in SME performance by the collective dimensions of SER"*.

There is no empirical evidence to reject the null hypothesis Ho5(c) that state *"the level of education of owner/manager has no influence on the total amount of variance explained in SME performance by the collective dimensions of SER"*.

7.2.6   Best Predictor Of SME Performance

To answer the question of which is the best predictor of SME performance amongst the three dimensions of SER, namely: market orientation, entrepreneurial orientation, and networking capability, the sequential multiple regressions analysis was used to assess the ability of the three composite dimensions of strategic entrepreneurial response (SER) to explain the amount of variance in SME performance. According to Pallant (2007:147) the sequential multiple regression has the power to control the effect of the previous entered predictor(s), when assessing the last entered predictor in the model, and isolate the unique contribution of the last predictor.

In Table 6.41, model 7 where only market orientation was included, the R^2 was 0.486 suggesting that market orientation alone explained 48.6% of variance in SME performance which by far is higher compared to the R^2 square change recorded in Table 6.41, model 8 and 9 where entrepreneurial orientation (R^2 = 1.2%) and networking capability (R^2 = 0.3%) were added respectively. The higher value of R^2 recorded in market orientation suggests that market orientation accounts for a large amount of variance in SME performance compared to the other two predictors, namely: entrepreneurial orientation and networking capability. This may suggest that thorough understanding of market orientation enhance better explanation of SME performance than the understanding of entrepreneurial orientation and networking capability. This may also suggest that firms emphasizing on market orientation are likely to continuously create a pool of opportunities which, when exploited successfully, create competitive advantages that lead to a firm's performance.

SUMMARY

The empirical results show that market orientation accounted a high amount of variance in SMEs compared to entrepreneurial orientation and networking capability. This suggests that market orientation is the best predictor to explain amounts of variance in SME performance. With the emphasis on market orientation, it is likely to generate strategic information that creates a pool of the most feasible opportunities. Entrepreneurial oriented firms targeting to exploit opportunities generated through market orientation, are likely to build a competitive advantage of the firms. In this case, combining and sustaining a market orientation and an entrepreneurial orientation culture in the firm, it is likely to build opportunity seeking and advantage seeking behaviours.

7.3   CHAPTER SUMMARY

This chapter discussed the implication of findings reported in chapter six. These findings revealed that convergence of the nine factors into a single component, confirmed measuring a single construct "strategic entrepreneurial response". Findings show that the emphasis on market orientation, especially on customer orientation and competitor orientation, generates strategic information which reduces the risk implied in the business. Findings also revealed that a pro-active firm engaged in networking may not use relational skills, internal communication and partners' knowledge possibly because these dimensions involve exchange of strategic information that may jeopardize the firm's competitive advantage in case the strategic information lands in the hands of rivals. However, the coordination was observed to be beneficial for a pro-active firm, possibly due to the efficient use of resources.

While the individual composite dimensions of SER, namely: market orientation, entrepreneurial orientation and networking capability individually accounted significant amount of variance in SME performance, the interaction of the three dimensions revealed that only market orientation and entrepreneurial orientation accounted significant amounts of variance in SME performance, with the larger amount of variance accounted for by market orientation. The networking capability accounted for a significant amount of variance only in LnProfit and no significant amount of SME profit, Lnprofit, LnROA and LnROI. These findings compel to

speculate that market orientation generate strategic information, which identify market gaps, that set a context for an entrepreneurial oriented firm to pro-actively identify and exploit the most feasible opportunities to fill the identified market gaps. This study concludes that sustained market- orientation and entrepreneurial orientation cultures in the firm, is likely to build opportunity seeking and advantage seeking behaviours.

Controlling the influence of demographic variables, namely: type of industry, firm size and level of education of owners/managers on the amount of variance explained in SME performance, these findings revealed that although the firm size and level of education accounted significant amount of variance in SME performance, the amount of variance had no influence on the amount of variance explained by the market orientation, entrepreneurial orientation and networking capability. With the market orientation consistently explaining reatively higher and significant amounts of variance in SME performance compared to EO and NWC it is identified to be the best predictor to explain SME performance. The next chapter presents conclusion and recommendation on the way forward.
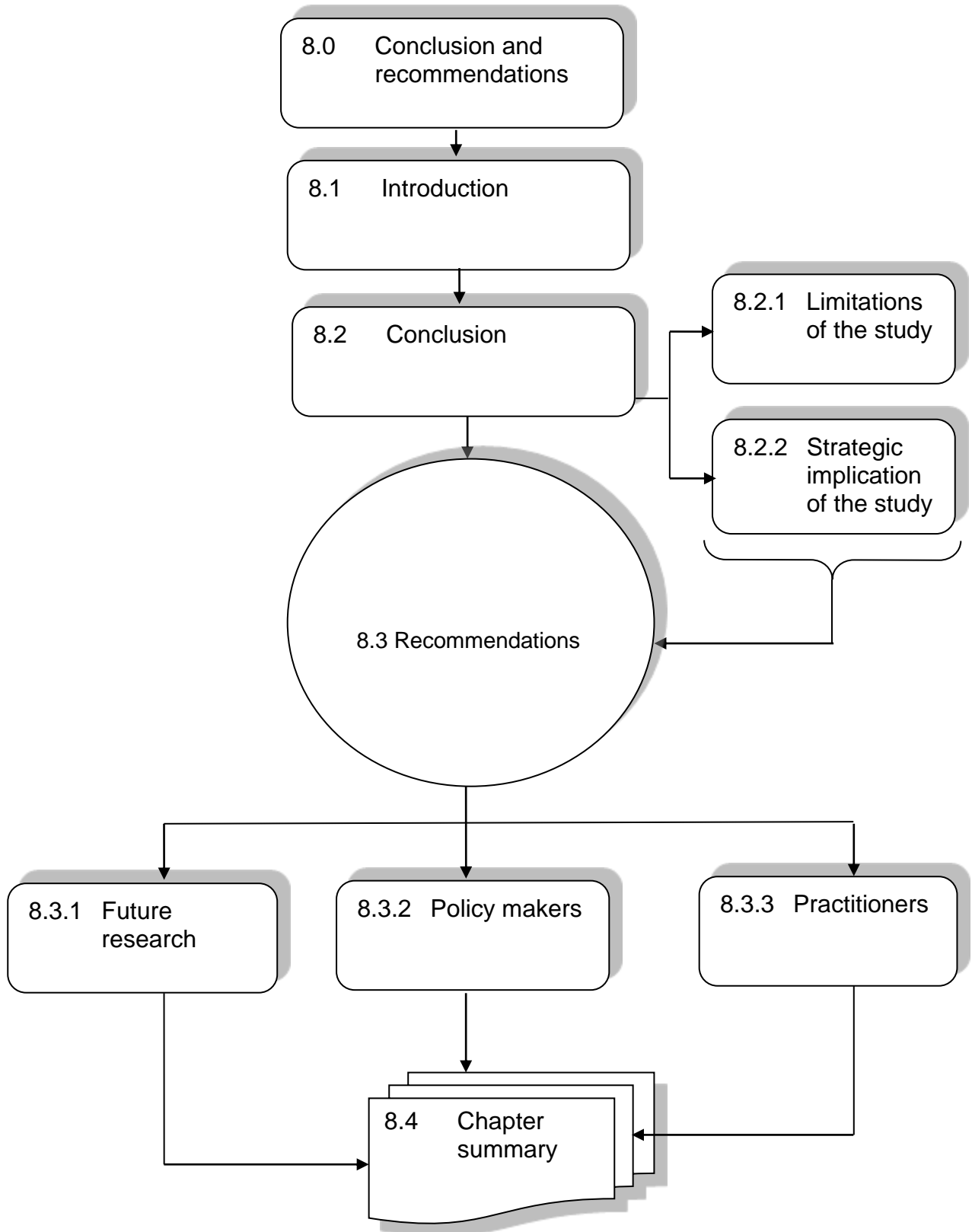
CHAPTER EIGHT

8   CONCLUSION AND RECOMMENDATIONS

8.1   INTRODUCTION

This chapter presents conclusion and recommendations of this study. The conclusion briefly highlights the major findings; limitations that confronted this study and the implication of the findings in the strategic entrepreneurship. The recommendations are categorized into three subsections, namely: future research, policy makers and practitioners. The future research suggests future areas for further studies to broaden our understanding on outstanding issues which were relevant, but beyond the scope of this study. The policy marker's recommendations are proposed actions to be taken by the policy makers to enhance the development of entrepreneurship and SMEs to take advantage of their potentials. The recommendations for the practitioners are proposed actions to be taken by the SME operators to improve and sustain SME performance.

8.2   CONCLUSION

This study acknowledges the argument that a growing competitive environment in contemporary times has created pressure on both SMEs and large firms. However, this pressure is much more felt by SMEs which are confronted by resource scarcity. Based on the importance of SMEs in the socio-economic development, a need arise to ensure their competitive ability and survival. In dynamic and competitive environment firm's performance singled out as a critical determinant for the survival and competitiveness of the firm. While there is consensus among scholars on appropriateness of the strategic entrepreneurship to address challenges posed by the dynamic and competitive environment, practically firms face challenges to simultaneous combine opportunity seeking and advantage seeking behaviours to create and sustain a competitive advantage necessary for SME performance.

While there have been several efforts made by previous studies to address this challenge, this study revealed that strategic entrepreneurship is still at an infancy stage and has not developed robust constructs to ensure simultaneous opportunity seeking and advantage seeking behaviours, which subsequently fosters sustainable

firm performance. This study argues that the emphasis placed by previous studies on the appropriateness of the entrepreneurship to foster opportunity seeking behaviour, underplayed the role of market orientation necessary for opportunity seeking. The argument is based on the fact that opportunity is the gap left in the market by the current players currently operating it. In this understanding, market orientation focused on customers, competitors and other factors that may influence customers and competitors' behaviour, is well placed to enhance opportunity seeking behaviour, rather than entrepreneurial orientation, which is inclined to the exploitation of opportunities that leads to a competitive advantage.

Drawing from the conceptual gap, this study examined the role of three constructs, namely market orientation, entrepreneurial orientation and networking capability which were all together conceptualised as the composite dimensions of the strategic entrepreneurial response (SER) to foster simultaneous opportunity seeking and advantage seeking behaviours in order to enhance SME performance. These findings confirmed a significant positive relationship between composite dimensions of SER and SME performance suggesting that the emphasis on market orientation, entrepreneurial orientation and networking capability fosters SME performance. The interaction of the three composite dimensions of SER: market orientation, entrepreneurial orientation and networking capability, recorded significant amounts of variance in SME performance with only market orientation and entrepreneurial orientation accounting significant amounts of variance in SME performance. This may suggest that entrepreneurial firms that engaged in networking which involves exchange of strategic resources and capabilities, is cautious to lose competitive advantage to networking partners. This is a situation that delays the realization of networking benefits.

In light of the above, coupled with the recorded significant positive relationship between entrepreneurial orientation and market orientation, it suggests that the market orientation and entrepreneurial orientation are related constructs and support each other to foster SME performance. This suggests that a firm's emphasis on market orientation generate strategic information which forms a context for entrepreneurial oriented firms to choose the most feasible opportunity to exploit by creating a set of innovations as a response to fill market gaps. In this view, this study

argues that market orientation is more premised on opportunity seeking and entrepreneurial orientation is more oriented towars exploitation of opportunities which is associated with advantage seeking. In this case, sustaining market orientation culture and entrepreneurial orientation culture build the opportunity seeking and advantage seeking behaviours of the firms necessary to sustain competitive advantage.

8.2.1   Limitations Of The Study

In the course of the study, this study faced some constraints that deserve mentioning. The main limitations were:

- The sample data for this study were collected in Tanzania environment and may not necessarily reflect other contexts, thus generalisation of the findings need to be taken cautiously, while acknowledging the potential environmental and cultural differences.

- The data collected is solely that of the sample business owners/managers which may not necessarily represent the image of the SME industry in the country. However, since it is well acknowledged that day to day business decisions that subsequently determine SME performance are made by owners/managers, for the sake of this study, it is assumed that owners'/managers' opinions adequately served the purpose of this study.

- The cross sectional research design adopted for this study may not have captured the dynamic nature of dimensions of entrepreneurial orientation that reported to vary based on the stage of the industrial lifecycle, but a longitudinal research design may add value to monitor over time the behaviour of the dimensions of SER and ascertain at what stage they change and what impact they have on SME performance.

- While SER is essential to both small and large firms, based on the fact that both small and large firms face environmental challenges, and may require strategic response to cope with the environmental dynamics, the sample for this study was limited to SMEs of which these findings may not necessarily reflect the situation in larger firms.

Despite these limitations, this study contributes to additional insights about the relations of the dimension of SER in SME performance, based on the assumptions that the collected information reflects the state of affairs of the SMEs' industry in the study area. In view of this argument, the next section presents the strategic implication of the findings.

8.2.2   Strategic Implication Of The Findings

Findings of this study have strategic implications that contribute to the effort of previous studies to address the challenges posed by the dynamic and competitive environments. Previous studies indicate that the intersection of entrepreneurship and strategic management form strategic entrepreneurship which is appropriate for a firm to attain its performance. The argument is based on the fact that the competitive advantage of the firm depends on how firms exploit today's competitive advantages while exploring future competitive advantage by continuous opportunity identification. In this case, there have been arguments that opportunity seeking and advantage seeking behaviours are domains of entrepreneurship and strategic management, respectively. However, recently the literature has acknowledged that firms face challenges to combine opportunity seeking and advantage seeking behaviours to sustain a competitive advantage in a dynamic environment.

This study argues that the emphasis on entrepreneurship as a source of opportunity is overstated and underplayed the role of market orientation as a source of strategic information that forms a source of potential opportunities on which entrepreneurial firms through entrepreneurial mindset, analyses the information, identify and /or create a series of innovation to respond to challenges confronting their customers. These findings show that the emphasis on market orientation reduces the risk implied in the business and promotes proactive behaviour that is associated with the firm's performance. Strategic market information increases the ability of the firm to discover and exploit the most relevant opportunities due to a clear understanding of the market dynamics. In this case, a sustained market orientation culture is likely to build opportunity-seeking behaviour that continuously generates strategic information that leads to create a pool of demand-driven opportunities. It is therefore logical to argue that a proactive firm responding to opportunities identified through market

orientation is likely to develop successful innovations that lead to a competitive advantage.

In light of the above, the argument suggests that entrepreneurial orientation is more inclined towards the exploitation of opportunities associated with the creation of a competitive advantage. However, the sustainability of competitive advantage depends on continuous opportunity seeking which relies on market orientation through continuous generation of strategic information. This shows that market orientation and entrepreneurial orientation are closely related constructs which depends on each other to create and sustain SME performance. While the entrepreneurship literature has not given much attention to the aspect of market orientation with the advanced argument, this study argues that a sustained market orientation and entrepreneurial orientation culture are likely to build opportunity-seeking andadvantage seeking behaviours to bridge the gap of firms, simultaneously executing opportunity- and advantage-seeking behaviours to create and sustain performance.

For SMEs, which are confronted by scarcity of resources, are likely to opt for networking to complement resources and capabilities needs, findings revealed that amongst the dimensions of networking capability, relational skills is appropriate for long term SME performance, while coordination and partners' knowledge are appropriate for short term SME performance. Conversely, internal communication is appropriate for both short and long term SME performance. These findings imply that a firm that is aimed at short term performance may consider combining coordination partners' knowledge and internal communication. But, a long term performance emphasis should be on relational skills and internal communication. In the event where firms target both short and long term performance, a combination of all four dimensions of networking capabilities is crucial. These findings are crucial because they highlight which set of dimensions of networking capability a firm should emphasize on when aiming at short- or long term performance.

Also findings revealed that networking capability reduces the risk in the business initiatives. This suggests that as a firm build networking capability, it is likely to strengthen its capacity to access strategic resources from partners, disseminate

strategic information within the firm where employees learn new capabilities in order to attain competitive advantages. The internal communication build internal competence through exchange of strategic information acquired from outside or within the firm. The built competence reduces the perceived risk as entrepreneurs tend to examine the level of risk, based on the capabilities at hand.

While it was expected that interaction of three dimensions of SER could significantly explain significant amounts of variance in SME performance, surprisingly networking capability did not account for a significant amount of variance in SME performance. This suggests that the benefits of networking capability may lag behind when an entrepreneurial firm adopt market orientation and entrepreneurial strategies. The possible reason for this is that when an entrepreneurial firm intends to create networking, it needs time to identify the appropriate potential partners with relevant resources and capabilities to address the customer's needs. This process requires time to build trust and confidence among networking partners before the exchange of strategic information and capabilities takes place. In this case, it is reasonable to assume that the benefits of network capability might be realized in the long term, but not in the short term.

It was also of interest to examine the interaction and the amount of variance explained in SME performance in order to identify the best predictor to explain SME performance. Consistently, market orientation explained significantly higher amounts of variance in SME performance compared to entrepreneurial orientation and networking capability. In this view, this study argues that the emphasis on market orientation is a strategic choice to generate strategic information that leads to identifying the most feasible and relevant opportunities that provide a context for entrepreneurial oriented firms to choose and exploit strategic opportunities to create and sustain competitive advantages. It is from this context, this study identified market orientation as the best predictor to explain SME performance. The next section presents recommendations on the way forward.

8.3 RECOMMENDATIONS

This study proposes a set of recommendations which are grouped into three categories, namely: for future research, practitioners, and policy makers.

8.3.1 Future Research

- The argument that pro-activeness is appropriate for short term performance such as profit generation requires further research to substantiate. . It will be of interest if future research adopts longitudinal designs to examine the relationship between pro-activeness and SME performance. It will also add value if future researches identified the most reliable performance measures which cater for both long and short term performance.

- This study associated the prevailing weak regulatory environment and inadequate business support services in the study area with the risk aversive among entrepreneurs. This argument is based on the fact that in weak regulatory environment and inadequate business support services, entrepreneurs feel insecure to venture in new business opportunities. However, further research to establish the relationship between environmental regulation, business support services and SME performance, might be beneficial to confirm this argument.

- Future research should consider examining the context in which coordination of resources is beneficial to the firm. For example, it will be interesting to understand at which level in the continuum of the environmental dynamic coordination can be beneficial for a firm, or at which stage in the business life cycle coordination is likely to yield positive results to a firm. Such findings will enhance efficient utilization of resources and optimize benefits from business ventures.

- While interaction of dimensions of SER accounts for a significant amount of variance in SME performance, it is not clear in which context entrepreneurs use a certain combination of dimensions of SER when responding to environmental challenges. It is of interest if future research explores this avenue, to enable practitioners to understand the appropriate combination of dimensions of SER when facing a certain challenge.

- The measurement of SER was drawn from market orientation, entrepreneurial orientation and networking capability. However, the measurement instrument did not capture some of the defining factors such as internal coordination, innovation and autonomy. Based on the importance of these items in SER, this study considers important for future study to refine the measurement instrument to be able to capture a full spectrum of the dimensions and examine their behaviours.

- While this study was limited to SMEs, future research should focus on large firms to examine the suitability of the constructs to enhance simultaneous opportunity- and advantage-seeking behaviour and if they are appropriate to foster performance.

8.3.2   Policy Makers

- The open market economy has changed the way businesses are managed and pose severe pressure on small and large businesses. In environments where business support services and regulatory framework are weak, like in Tanzania, entrepreneurs feel threatened and are at risk to operate. In this view, this study recommends that the government should strengthen a regulatory environment and create an environment where the private sector can operate in partnership with the government to provide business support services to entrepreneurs.

- The shift from protective policies (socialist) to the open market economy provides a lot of opportunities in the private sector in Tanzania. However, the lack of entrepreneurial skills amongst entrepreneurs is a stumbling block for entrepreneurs to face challenges posed by rivals. In this case, this study suggests that the government should create an enabling environment to build an entrepreneurial culture amongst entrepreneurs to be able to take advantage of unfolding opportunities.

- This study observed several efforts made by the government to support SMEs in Tanzania. However, the supporting institutions are less coordinated to create a common force that can bring impact to the development of SME and entrepreneurship. In this view, the government should consider improving the coordination of the business support services to create impact in the SME sector.

8.3.3 Practitioners

- Pro-activeness is observed to enhance short term performance in SMEs. This suggests that firms targeting short term performance may emphasize on a pro-activeness posture to generate profit. This might be crucial especially when a firm is at growth stage in a growth trajectory where profit and other resources are expected to support the fast growth of a firm.

- Market orientation, especially customer orientation and competitor orientation, generates strategic information which enables entrepreneurs to take informed decisions, which subsequently lowers the business' risks implied in the business opportunities. A low business risk environment fosters a pro-active behavior which is associated with short term performance, such as profit. In this view, this study suggests that as a short term solution, SME owners/managers that operate in a risk environment should focus on market orientation to lower business risks and take advantage of emerging business opportunities.

- Market orientation generate strategic information which forms a potential source of opportunities in which an entrepreneurial oriented firm use entrepreneurial mindset to analyze the information and identify and or create the most feasible opportunities targeted to offer more value to customers. In this case, this study views that sustaining a market orientation culture and entrepreneurial orientation culture is likely to enhance opportunity seeking and advantage seeking behaviours. A combination of market orientation and entrepreneurial orientation may enhance simultaneous execution of opportunity seeking and advantage seeking behaviours.

- For resource constrained firms operating in competitive environment, intending to adopt a proactive behaviour when planning to adopt networking as a strategy to complement resources and capability, needs should focus on coordination of resources and capabilities to maximize benefits resulting from a networking relationship.

8.4 CHAPTER SUMMARY

This study concludes that, while strategic entrepreneurship literature has not given much attention to market orientation with the argument that entrepreneurial oriented firms are able to create new markets by being the first to offer new products or services, this study argues that entrepreneurial orientation through pro-active behaviour is the response to strategic market information in an effort to fill market gaps identified through market orientation. The argument is anchored in the fact that entrepreneurs do not act blindly, they are driven by opportunities. Opportunities being gap left in the market, it is logical to argue that market orientation is well placed to generate strategic market information which leads to identify market gaps and entrepreneurial orientation through pro-activeness is a response to fill these gaps which leads to a firm's competitive advantage. Viewing this way, will imply that sustaining a market orientation and entrepreneurial orientation culture will build an opportunity seeking and advantage seeking behaviours essential to create and sustain a firm's performance.

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