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**THE JOINT INFLUENCE OF ENTREPRENEURIAL
ORIENTATION, ORGANIZATIONAL RESOURCES, AND
EXTERNAL ENVIRONMENT ON PERFORMANCE OF
DAIRY MICRO AND SMALL ENTERPRISES IN KIAMBU
COUNTY, KENYA**

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THE JOINT INFLUENCE OF ENTREPRENEURIAL ORIENTATION, ORGANIZATIONAL RESOURCES, AND EXTERNAL ENVIRONMENT ON PERFORMANCE OF DAIRY MICRO AND SMALL ENTERPRISES IN KIAMBU COUNTY, KENYA

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Abstract

The main objective of the study was to determine the joint effect of entrepreneurial orientation, resources and the external environment on performance of dairy micro and small enterprises (MSEs) in Kiambu County. In Kenya, the micro and small enterprises in the dairy subsector have received focus due to their potential for employment generation, incomes, food and contributing 3.8% to the Gross Domestic Product (GDP). Other benefits that accumulate due to micro enterprises in the dairy subsector in Kenya include creation of economic progress, prosperity, new products and services creation, results and processes for use by manufacturers and customers. The current study was anchored on positivistic paradigm. The investigation followed a cross-sectional descriptive survey. All 175 licensed dairy micro and small businesses that sell milk from milk dispensers and milk bars made up the target population. Primary data was collected using semi-structured questionnaires. Data was analysed using the multiple regression analysis. The study concluded that entrepreneurial orientation, resources and the external environment had a combined significant influence on the performance of Dairy MSEs in Kiambu County. The study recommends that policy makers in the dairy sector like Kenya Dairy Board should adopt policies that will encourage the Dairy MSEs to adopt strategies that will enhance employees' efficiency. The policies should also lead to strategies that increase the firms' pro-activeness and aggressiveness. They should use the study findings to determine the loopholes that are connected to misuse of resources to enhance transparency and accountability for performance to be realized.

Key Words: Entrepreneurial Orientation, Organizational Resources, External Environment, Firm Performance, Dairy MSEs, Kenyan perspective

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Introduction

In recent years, research on entrepreneurial orientation (EO) and its relationship to business performance has made significant progress. Inventiveness, individuality, proactivity, risk-taking, and competitive aggression are among the components of entrepreneurial orientation (EO), which Mickiewicz, Sauka, and Stephan (2010) claim enable organizations to stay ahead of the competition and increase success. The EO has become a significant construct in entrepreneur-related literature when it comes to comprehending entrepreneurial processes. In fact, according to Covin and Miller (2014), EO is one of the few areas of entrepreneurship research that has generated a significant volume of research. The term "entrepreneurial mindset" refers to the strategies, procedures, and styles of making decisions that owners and managers employ while acting according to the entrepreneurship. It represents how a company creates value, independent of what entrepreneurial activity it engages in (such as new market entrance) (Mickiewicz, Sauka & Stephan, 2010).

The orientation of entrepreneur has come out as the main establishment in literature of entrepreneurship when dealing with knowing better procedures of entrepreneurship. In reality, EO is a field in research of entrepreneurship where a growing framework of study is noticeable (Covin & Miller, 2014). The establishment of EO represents the techniques, activities and style of making decisions that owners or managers apply to run their work accordingly. It shows how a company works in creation of value concerning the activities of entrepreneurship (Mickiewicz, Sauka & Stephan, 2010).

Studies opine that this link is influenced by other factors including the external environment (Hitt, *et al.*, 2011; Pearce *et al.*, 2012), organizational resources (Wales *et al.*, 2013) and organizational characteristics (Su,

2013; Covin & Lumpkin, 2011; Echols, 2000; Su, 2013; Wales *et al.*, 2013). Furthermore, performance is crucial in every profit-making enterprise including micro and small enterprises in the dairy subsector to ensure continued operation. Enterprises operate under a constantly changing environment and there is need to utilize their entrepreneurial orientation and the resources they possess to enhance performance (Agnieszka, 2013). The aim of the research is establishing how enterprise performance is jointly influenced by entrepreneurial orientation, resources and the external environment.

Possession of organizational resources which include: human, finance, reputation, equipment among others may lead to an enhanced ability of an enterprise to detect challenges and opportunities for enterprise growth (Dollinger, 2005; Teece *et al.*, 2007; Mwazumbo, 2016). Those enterprises that are endowed with adequate resources are able to diversify and enter into new markets with ease (Ismail *et al.*, 2012). Since resources are critical in a competitive environment, this study conceptualizes resources as crucial in realizing the performance of an enterprise. The external environment of an enterprise keeps changing and there is need to constantly scan it for opportunities and devise ways to deal with challenges ahead of competitors (Murgor, 2014). This study characterizes entrepreneurial orientation and the resources in possession by an enterprise as crucial in its interaction with the external environment in enhancing performance (Lin *et al.*, 2009)

The idea of entrepreneurship in and of itself displays a behavioural element that contributes to the definition of entrepreneurial orientation. Researchers have described entrepreneurial orientation as a behavioural framework that is distinct in nature with linked behaviours that include traits of risk-taking, innovation, proactivity, according to pearce *et al.* (2010), competitive aggressiveness, and autonomy.

Entrepreneurial orientation is commonly cited as a prerequisite of development, competitive advantage, and higher performance (Koçolu et al. 2015).

The dairy MSEs in Kiambu County are crucial in employment creation, provision of food and income to the enterprises involved. There has been a continuous upward demand for safe and high-quality milk hence increased investment in the subsector (Kenya Dairy Board, 2014). Although other factors such as availability of milk and infrastructure impact these MSEs in this subsector, performance is crucial because it measures how well an enterprise can survive in an ever-changing external environment (Awino *et al.*, 2009). The location of the study was the County of Kiambu. This location is unique because of its proximity to Nairobi, a city with a growing population hence high demand for milk and milk products. Other studies carried out on MSEs indicate that the county has good infrastructure, availability of business information, finance accessibility and training (Kamunge *et al.*, 2014). The Kiambu county government in its development plan is committed to funding various sectors key among them being the dairy subsector (County Government of Kiambu, 2018). There are number of dairy processors in Kiambu County including Palmhouse Dairies, Githunguri Dairies, Limuru Milk Processors, Ndumberi Dairies among others (County Government of Kiambu, 2018). This is confirmation that the market for dairy is expanding. This subsector has received limited local focus by studies that aim to establish the subsector performance which depends on how the enterprises involved can align their entrepreneurial orientation and resources with an external environment that is ever changing. The present study purposed to investigate the effects of resources and external environment on the relationship between entrepreneurial orientation and MSEs performance in the dairy subsector.

Research Problem

Studies have established that firm performance is influenced by different variables including technology capabilities, marketability, and resources (Wiklund & Shepherd, 2003). Hakala and Kohtamaki (2010) aver that characteristics of entrepreneurial orientation enable entrepreneurs to conceive new ideas and enter new markets in anticipation of performance through traits such as innovation, autonomy and risk taking. Knight (1973) in arguing out entrepreneurial orientation theory opined that all activities carried out in an enterprise are related to its performance. Smart and Conant (1994), however, found no remarkable link between performance and entrepreneurial orientation. This study conceptualizes entrepreneurial orientation as the independent variable and organizational resources as the intervening variable, furthermore, external environment is conceptualized as the moderating variable that explain performance of MSEs operating in the dairy subsector in Kiambu County.

In Kenya, the MSEs in the dairy subsector have received focus due to their potential for employment generation, incomes, food and contributed KES 176 billion to the GDP in the year 2021 (GoK, 2021). Other benefits that arising from micro enterprises in the dairy subsector in Kenya include creation of economic progress, prosperity, new products and services creation, results and processes for use by manufacturers and customers. This is echoed in a study of the dairy subsector in Tanzania (Alexopoulou, 2011) which reported that the subsector plays a role in creating jobs, reducing poverty and income distribution. In Albania, MSEs employ 71.3% of the total employees in the nation with 54% of the firms being in retail and services sector (Dushku & Pilahar, 2013). The result of a study in Norway on entrepreneurial orientation of farm businesses (Veidal & Flaten, 2014) postulated that business performance might be improved by the ability of

owner/manager of an enterprise rather than entrepreneurial orientation.

Enterprise performance has been studied using two variables namely EO and the performance (Fauzul *et al.*, 2010; Chen *et al.*, 2011; Agnieska, 2013). Others tested the determinants of performance of group-owned dairy enterprises (Shikuku *et al.*, 2015), entrepreneurial and managerial orientation as predictor variables and the dependent variable as firm growth (Chandrakumara *et al.*, 2011). Exploration by Gathungu *et al.* (2014) studied the influence of networking on the relationship between entrepreneurial orientation and performance. The assessments referred to have frequently used performance as the dependent variable. However, the mediating and moderating factors have not been applied to assess their effect on performance. This assessment filled the methodological gap by focusing on entrepreneurial orientation as the free factor, resources as the interceding construct, external environment as the directing determinant and performance as the reliant construct. Previous studies done both globally and locally on performance of enterprises as a function of different variables have made a substantial contribution in the field. A study by Fauzul, Takenouchi and Yukiko (2010) on EO and SMEs' enhancement in Sri Lanka found that entrepreneurs with good mindset will automatically steer their firms to achieve better results.

An investigation by Chen, Du and Chen (2011) linking the behaviour of entrepreneurs and entrepreneurial orientation concluded positive and significant relationship. Further Ismail *et al.* (2012) studying the role played by organizational resources in enhancing firm performance concluded that firms that have the required resources perform better. In addition, a study by Machuki and Aosa (2011) on how environment (external) affects firm growth concluded that environment (external) significantly affects firm growth. Fatoki (2014)

researching South African MSEs including those in the dairy subsector recommended that government initiatives in training and seminars for micro enterprise owners/managers may enhance entrepreneurial orientation. Bolo *et al.* (2009), posit that dairy industry support is key to improving performance in the milk sector through provision of technical training and finance.

In a study by Shikuku (2015) on what determines survival of group-managed businesses in the Dairy MSEs in Trans-Nzoia County, reported that technological innovation and marketing influence performance. Okeyo (2013) found that entrepreneurial orientation had no impact on execution, however, that outside business environment has a significant moderating impact on the relationship between organizational strategy and execution. According to the studies referenced, the impact of EO, resources, and the external environment on the performance of dairy MSEs has not been adequately addressed. The current study aimed to fill this gap in the Kenyan context. As a result, the central query this study attempts to answer is: What is the combined effect of resources, external environment and entrepreneurial orientation on the performance of Dairy MSEs in Kiambu County?

Theoretical And Empirical Review

This study was underpinned on the following theories: Entrepreneurial Orientation Theory (EOT) which anchored EO with its dimensions as: innovativeness, autonomy, risk taking, proactiveness and competitive aggressiveness and explained the linkage among EO, organizational resources and firm performance variables (Barney, 1991). The second supporting theory is Dynamic Capabilities theory (DCT) which avers that dynamic capabilities (managerial experience, finance, reputation) assist an enterprise to create resources in order to respond to market changes and environmental threats (Pisamo & Teece, 2007). The theory linked an enterprise resources and performance.

The third supporting theory is Contingency Theory (CT) which posits that an enterprise depends on the external environment for opportunities and resources in its strategies and actions (Kihara *et al.*, 2016). It is imperative for there to be a “fit” between an enterprise’ activities and its external environment. This theory linked EO, the external environment and performance.

In the study by Rauch, Wiklund, Lumpkin, and Frese (2009) another factor that may modify the link between EO and performance is industry. Entrepreneurial activities are more likely to benefit businesses in dynamic sectors where technology and/or customer tastes change fast. As a result, the research was divided into two categories based on resources: high-tech and non-high-tech sectors. Biotechnology, electric and electrical items, computer software, new energy and hardware and medicines were all high-tech businesses. The performance of entrepreneurial orientation in high-tech companies and other industries differed statistically significantly. This backed up the idea that high-tech companies benefit more from pursuing an entrepreneurial orientation. Entrepreneurial orientation was once conceived as a culturally universal notion, implying that it should be applicable in a variety of nations. The study revealed some evidence that the EO – performance connection is moderated by size. Micro companies had a stronger link than small ventures, but there existed no differences between micro and big firms or small and large enterprises. There were significant differences between high-tech and non-high-tech firms, with the former having a greater EO – performance connection. Given the high-tech sectors' dynamism and fast technical developments, it seems natural that entrepreneurial orientation would pay off more in these businesses.

Lee and Chu (2013) investigated how company performance is influenced by entrepreneurial attitude, environmental dynamic, and resource

scarcity. The interplay between entrepreneurial orientation, environmental dynamism, and the rarity of resource–capability (rareness) pairings, according to this study, has a beneficial effect on company performance. The results of this study, which included data from a secondary database and a questionnaire survey of 237 public firms in Taiwan, showed that EO has a positive impact on company performance.

According to the study by Okeyo (2013) the resources in an enterprise and unpredictability in the changes of environment surrounding the business highly determine how entrepreneurs perform. Performance therefore can be met by continuously innovating, putting resources to better usage and being proactive in the changes that come with the environment uncertainties. In the current study the external environment is the moderating variable, it is constantly changing and this may affect performance positively or negatively (Grande *et al.*, 2011; Hughes & Morgan, 2007; Andersen, 2010). This study proposed entrepreneurial orientation - resources – external environment - performance link in MSEs in the dairy subsector in Kiambu County.

Methodology

The study used a descriptive cross-sectional survey design and positivist philosophy, and its target population was 175 dairy MSEs in Kiambu County. Primary data was acquired via semi-structured questionnaires. To investigate the importance of the correlations between the variables and test the hypotheses, the data were analyzed at a 95% confidence level using inferential statistics specifically multiple regression analysis. To make the analyzed data easier to understand, tables were used to present it.

Results

The objective was to determine the combined effect of entrepreneurial orientation, resources and the external environment on performance of Dairy MSEs in Kiambu County. The hypothesis was: *H₀ Entrepreneurial Orientation, resources and the environment (external) have no significant joint effect on performance of Dairy MSEs in Kiambu County.*

With the help of multiple regression analysis, the hypothesis was examined. The dependent variable in the regression model was firm performance, and the predictor variables were entrepreneurial orientation, resources, and the external environment. The analysis was in two levels; Variable measurement model and indicator measurement model. The results for variable measurement model are as presented in Table 1.

Table 1: Regression Analysis on the Joint Effect of Entrepreneurial Orientation, Organizational Resources, External Environment and Firm Performance (Variable measurement Model)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.838 ^a	.702	.694	.34805

a. Predictors: (Constant), External Environment, Entrepreneurial Orientation, Organizational Resources

ANOVA^a

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	28.879	3	9.626	79.467	.000 ^b
	Residual	12.235	101	.121		
	Total	41.114	104			

a. Dependent Variable: Firm Performance

b. Predictors: (Constant), External Environment, Entrepreneurial Orientation, Organizational Resources

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.133	.224		.594	.554
	Entrepreneurial Orientation	1.517	.114	1.228	13.283	.000
	Organizational Resources	.438	.099	.485	4.411	.000
	External Environment	.098	.086	.101	1.146	.254

a. Dependent Variable: Firm Performance

As shown in table 1 above, entrepreneurial orientation, organizational resources, and external environment together account for 69.4% (Adjusted $R^2 = 0.694$) of variances in the company performance. The data also shows that the model ($F = 79.467$, $P < 0.05$) is statistically significant in explaining the combined impact. Using standardized coefficients, the results show that entrepreneurial orientation has a positive impact on the joint effect of organizational resources and the external environment on firm performance ($\beta = 1.517$, $t = 13.283$, $P < 0.05$); organizational resources have a positive impact on the joint effect of entrepreneurial orientation and the external environment on firm performance ($\beta = .438$, $t = 4.411$, $P < 0.05$); and the external environment has a positive impact on the joint effect.

The relationship derived on the joint effect of entrepreneurial orientation, organizational resources and external environment on firm performance is statistically significant. The regression equation derived was thus as follows:

$$Y = 0.133 + 1.517X_1 + 0.438X_2 + 0.098X_3 + \epsilon$$

Where X_1 represents entrepreneurial orientation index,

X_2 represents organizational resources index,

X_3 represents external environment index and

ϵ is the error term

According to the results of the beta coefficient, an increase in entrepreneurial orientation will have an impact on a firm's performance by 1.517 units, an increase in organizational resources will have an impact of 0.438 units, and an increase in the external environment will have an impact of 0.098 units. The results thus reject null hypothesis H_0 which states that there is no significant joint effect of organizational resources, entrepreneurial orientation, and the external environment on performance.

The combined impact of entrepreneurial orientation, organizational resources, and the external environment on performance was examined using multiple regression analysis and the results presented in Table 2

Table 2: Regression Results on the Joint Effect of Entrepreneurial Orientation, Organizational Resources, External Environment and Firm Performance (Indicator measurement Model)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.882 ^a	.777	.748	.31554

a. Predictors: (Constant), Legal, Economic, Competitive aggressiveness, Autonomy, Political, Financial resources, Human resources, Innovativeness, Socio-cultural, Risk taking, Environmental, Pro-activeness

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	31.954	12	2.663	26.744	.000 ^b
	Residual	9.160	92	.100		
	Total	41.114	104			

a. Dependent Variable: Firm Performance

b. Predictors: (Constant), Legal, Economic, Competitive aggressiveness, Autonomy, Political, Financial resources, Human resources, Innovativeness, Socio-cultural, Risk taking, Environmental, Pro-activeness

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.564	.290		1.945	.045
Autonomy	.062	.082	.066	.752	.0354
Pro-activeness	.327	.398	.393	.822	.0213
Risk taking	.281	.176	.279	1.595	.0114
Innovativeness	.507	.095	.504	5.335	.000
Competitive aggressiveness	.546	.099	.377	5.503	.000
Human resources	.188	.364	.235	.516	.0207
Financial resources	.256	.155	.299	1.655	.0101
Political	.028	.103	.024	.272	.0287
Economic	.056	.096	.087	.585	.0360
Socio-cultural	.086	.093	.111	.930	.0355
Environmental	.419	.199	.568	2.104	.038
Legal	.120	.110	.104	1.094	.0277

a. Dependent Variable: Firm Performance

As coefficients for the indicator measurement model, Table 2 above shows that legal, economic, competitive aggressiveness, autonomy, political, financial resources, human resources, innovativeness, socio-cultural, risk taking, environmental and pro-activeness jointly explain 74.8% (Adjusted R² = 0.748) of variations in the firm performance. The indicator measurement model is also shown in the results, and its statistical significance in explaining the combined effect on firm performance (F=26.744, P<0.000 is suggested by the model's implication.

The results of the indicator measurement model's beta coefficient indicated that: legal, economic, competitive aggressiveness, autonomy, political, financial resources, human resources, innovativeness, socio-cultural, risk-taking, environmental, and pro-activeness have positive and significant effects on the interaction between entrepreneurial orientation, organizational resources, and external environment on firm performance (P<0.05). The joint impact of entrepreneurial orientation, organizational resources, and the external environment on business performance

is strongly influenced by competitive aggressiveness ($\beta=.546$, $t=5.503$, $P<0.05$).

Therefore, the interaction of organizational resources, entrepreneurial orientation, and external environment on performance was statistically significant. This suggests that, overall, company performance may be well predicted by entrepreneurial orientation, organizational resources, and the external environment. The results disprove the null hypothesis that the entrepreneurial orientation, organizational resources, and external environment have no significant combined effects on the performance of dairy MSEs in Kiambu County.

Conclusions And Recommendations

The research established that entrepreneurial orientation, resources and the external environment had a significant joint influence on performance of Dairy MSEs. When it comes to understanding entrepreneurial processes, the EO has emerged as a significant construct in entrepreneur-based literature. Indeed, EO is one of the few areas of entrepreneurship study where a substantial amount of work can be found. Managers who have a high experience in practicing entrepreneurial orientation would be better suited to manage the enterprises. Moreover, having a high entrepreneurial knowledge and competent human resource would better the way entrepreneurial orientation is adopted hence a better performance of the enterprise. Allocation of enough resources for the activates revolving around practicing entrepreneurial orientation would also better the performance of the SMEs. Further dairy MSEs should consider the influence of the external environment such as the government policies before adopting any form of the entrepreneurial orientation practices. This will ensure that the enterprise does not go outside the set rules and policies.

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