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EFFECT OF STRATEGIC ORIENTATION ON PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES: EVIDENCE FROM KENYA

Joel Oloishorua Nakola
Graduate Assistant, Department Of Economics,
School Of Economics, University Of Eldoret, Kenya
billinvestments26@gmail.com

Tarus B. K.
Head of Department, Department of Business Management, School Of Business,
University Of Eldoret, Kenya

Kibet Buigut
Lecturer, Department Of Finance, School Of Business, University Of Eldoret, Kenya

Kimitei Edwin Kipchirchir
Graduate Assistant, Marketing and Logistics Department,
School of Business and Economics, Moi University, Kenya

Abstract

The main purpose of the study was to determine the effect of strategic orientation on performance of small and medium enterprises (SME) in Nandi County. This study was informed by Resource-Based View Theory. This study adopted an explanatory research. The population of study comprised 2053 in Kapsabet Town registered SMEs, Kenya. Cluster sampling technique was used to select a sample size of 335 SMEs. Data was obtained using questionnaires and Interview Schedules. Descriptive statistics which include frequency distribution, percentages, means and standard deviations were used to analyze data. Inferential statistics was used to draw implications from the data with regard to the regression model. The findings showed that customer orientation and technology orientation had significant and positive effect on SME performance. Thus, the study concludes that that customer orientation *and technology orientation makes it possible for SMEs to achieve competitive advantage and thus a higher level of performance. It is therefore important for SMEs to focus on understanding customers and identifying their needs. Additionally, it would be prudent for those in the sales department to share information within their business concerning competitors' activities SMEs need to use the technology they utilize to attain competitive advantage.*

Keywords: Customer orientation, technology orientation, SME, performance, entrepreneurial orientation

INTRODUCTION

Small and medium enterprises performance has been considered one of the most important critical factors behind economic success of both developed and developing countries due to their multiple contributions in economic growth, employment generation and innovations (Kongolo, 2010; Asian Productivity Organization, 2011). Thus, factors determining performance of SMEs has been the main focus of many researchers for many years. Studies have suggested that strategic orientation is critical for the long-term survival of the firm with higher level of performance (Griffin and Ebert, 2006; Asian Productivity Organization, 2011). Different strategic orientations such as market orientation, entrepreneurial orientation, learning orientation, technology orientation, product orientation, resource orientation and customer orientation have been used to explain the phenomenon (Ledwith & Dwyer, 2009; Li, Zhao, Tan, & Liu, 2008; Gao, Zhou, & Yim,2007; Kropp, Lindsay, & Shoham, 2008).

Hoq and Chauhan, (2011) have indicated strategic orientations as organizational resources which can improve the success of SMEs. Some other researchers consider strategic orientations as dynamic capability that represents the organization's ability to integrate and build internal and external competencies (Teece, Pisano and Shuen, 1997; Zhou, Yim, and Tse, 2005). There are other authors who consider orientations as elements of the organizational culture (Nobel, Sinha and Kumar, 2002). This view characterized the concept as a set of attitudes, values and behaviors of the organization. It is very clear that different authors and have viewed strategic orientations through different lenses and it is very critical for the success of SMEs. Some studies found that strategic orientation enables firms newly built or less than ten years old (Lussier, 1995), to perform better than competitors and enhance firm performance (Ireland, Hitt, & Sirmon, 2003; Lumpkin & Dess, 2001; Wiklund & Shepherd, 2005; Zahra & Garvis, 2000). However, the results of empirical studies are mixed., most of the related researches have attempted to investigate the effect of single orientation and combined with other contextual factors (Hakala, 2011; Kropp, Lindsay, & Shoham, 2006). Recent studies further argued that the strategic orientation concept used in previous research is fragmented and representing only a disconnected and partial view.

In most of the developing countries, the performance of the SMEs is a key issue today. However, many SMEs face the constraints of technological backwardness, lack of human resource skills, weak management systems and entrepreneurial capabilities, unavailability of appropriate and timely information, insufficient use of information technology, poor product quality. As a result, there exists a low level of performance (Asian Productivity Organization, 2006, 2011). Strategic orientation of SMEs is one of the most critical factors for their success. However the SMEs in developing countries are considered less strategically oriented than those of developed countries (Herath and Mahmood, 2013).

In Kenya, despite the critical role played by the SME in the country, most of the business startups are faced with many challenges where over 90% of the businesses fail at their third year (Njoroge and Gathungu, 2013). Mullei & Bokea, as cited in Wambugu, (2005) stated that in Kenya, very few enterprises have grown into large formal organizations, an adverse scenario that is apparently common among youth owned business enterprises. Raising questions of if SMEs in Kenya are well strategically oriented. But most of the studies in developing countries have focused on the effect of single strategic orientation coupled with other factors on SME performance, hence creating a gap on how learning, entrepreneurial and market orientations affect SME performance.

Therefore, to fill the gap, the current study is needed to show direct effect of strategic orientation on SME performance. Thus, this study hypothesized that:

$H_{O1:}$ *There is no significant effect of customer orientation on SME performance*

$H_{O2:}$ *There is no significant effect of technology orientation on SME performance*

THEORETICAL REVIEW

Grounded in Barney's (1991) theory on the resource-based view (RBV) of a firm, researchers have defined strategic orientation as an attribute that influences the ability of a firm to focus on strategic direction of the firm and build or sustain the proper strategic fit for superior firm performance (Davidsson and Wiklund, 2000; Gatignon & Xuereb, 1997). Since strategic orientation will vary from one organization to the next; and vary based on contextual organizational variables, strategic orientation is viewed as a multidimensional construct (Venkatraman, 1989). Therefore organizations use resource allocation and environmental cues to determine the right plan for the company to achieve its goals (Göll & Sambharya, 1995). Based on strategic management literature, strategic orientation increases the likelihood of share goals, making it easier to implement effective processes and improve performance. Basically, RBV describes a firm in terms of the resources that firm integrates. Resources are insufficient for obtaining a sustained competitive advantage and a high performance as well (Teece, 2007; Newbert, 2007). Being so, firms must be able to transform resources in capabilities, and consequently in a positive performance. Firms reach a superior performance, not because only they have more or better resources, but also because of their distinctive competences (those activities that a particular firm does better than any competing firms) allow to do better use of them. In the dynamic perspective, capabilities approach is a theoretical stream inside the RBV. This theory considers that, on one hand, the firms are constantly creating new combinations of capabilities and, on the other hand; the market competitors are continually improving their competences or imitating the most qualified competences from other firms. This approach puts emphasis on internal processes, assets and market position as restricting factors not only the capability to react but also the management capability to coordinate internal competences of the firms. While a significant body of literature exists examining the impact of strategic orientation and growth in large firms, generalizing these findings to SMEs is suspect. The impact of strategic orientation on SMEs will differ from big businesses based on resource allocation constraints and capabilities of the firm

EMPIRICAL REVIEW

Customer Orientation on SME Performance

McEachern and Warnaby (2005) define customer orientation as a component of market orientation that focuses on putting the customers at the centre of strategic focus thus bringing about high business performance. Cross, Brashear, Rigdon and Bellenger (2007), Ali and Bharadwaj (2010), and Chahal and Kumari(2011) emphasize the need for organizations to move from the level of studying customer segments to shaping separate offers, services and messages to individual customers. Hence such firms may need to collect information on each customer's past transactions, demographics, psychographics, and media and distribution preferences. And they would hope to achieve profitable growth through expenditures by building high customer lifetime value. They further assert that the ability of a company to deal with customers one at a time has become practical as a result of advances in factory customization, computers, the internet and database marketing software hence high firm performance.

Researchers for example Grewal and Tansuhaj (2001), Ferrier (2001),Gray and Hooley (2002), Gonzalex,Vijande and Casielles (2002), Strandholm, Kumar and Subramanian (2004), Judge and Elenkov (2005), Bhuian et al.(2005), Zhou et al. (2005), Russo and Harrison(2005), Menguc and Ozanne (2005), and Zuniga-Vicente et al. (2006) have established that market orientation has a direct relationship with innovation and learning orientations in an organization and that competitive intensity moderates the relationship of market orientation and performance. It is thus expected that competitive intensity will positively moderate the customer orientation - performance relationship.

Kirca, Jayachandran and Bearder (2005) and Chen and Lin (2011) opine that the logic for expecting a strong link between a customer orientation and performance is based on the concept of a sustainable competitive advantage and a number of researchers have examined the link between customer orientation and performance. Although several studies have supported an association between customer orientation and profitability but most of these studies were conducted in US, Europe and Asia, Cross et.al.(2007),Martin and Grobac (2003), and Slater and Narver (2000). Traditionally, the literature concerning the marketing concept has assumed that the implementation of customer orientation would lead to superior organizational performance (Piercy, Harris, & Lane, 2002). Customer orientation is significantly important in enabling firms to understand the market place and develop appropriate product and service strategies to meet customer needs and requirements(Cross et.al.; 2007 and Liu, Luo& Shi, 2003). The Resource-Based View of the Firm (RBV) looks inward at the firm, in order to provide understanding of what makes a firm uniquely capable of sustaining competitive advantage through consistent encapsulation of customers' desires and aspirations, and ability to take instructions from the market place. Dynamic capability is reflected in customer orientation within the organization (Winter, 2000) and represents the ability to renew competencies in response to changing market conditions (Salavou, 2005 and Teece, Pisano &Shuen, 1997).

Technology Orientation on SME performance

Chandler, (2000) argues that technologically-oriented firms devote their resources to acquiring new and advanced technologies and developing new processes, products and services hence high firm performance, although, the rate of technological changes within an industry might affect their technological adoption and/or development. Previous studies have found positive relationships between technology orientation and business performance. The importance of technology orientation to innovation has been long recognized, but relationship between technology orientation and business performance is given minimal attention in the literature.

Huber, (2001) asserts that firms that have a high technology orientation gain better business performance when technology changes rapidly because they are able to introduce new processes, products and services to satisfy customer needs. Technologically-oriented firms that combine customer-value innovation with technological innovation have an increased chance of enjoying sustainable profit and performance. However, given the technological advances in the dynamic Dubai market, SMEs need to experiment with new technologies in order to survive in the market.

Scholars have considered that both market orientation and entrepreneurial orientation have positive influence on firm performance (Slater & Narver, 2000; Lin, Peng, & Kao, 2008; Reijonena & Komppulab, 2010; Fauzul, Takenouchi, & Yukiko, 2010; Chandrakumara, De Zoyza, & Manawaduge, 2011; Wang, 2008). Although market orientation has been found to be positively related to sustainable competitive advantage (Aziz & Yassin, 2010) and innovation performance (Mavondo, Chimhanzi, & Stewart, 2005), a number of studies have also proven that market orientation is a poor predictor SME performance and even detrimental when the demand uncertainty is at a higher level (Gao, Zhou, & Yim, 2007; Ledwith & Dwyer, 2009) .

Firm performance has been positively influenced by market orientation combined with innovation orientation (Appaiah & Singh, 1998), resource orientations (Paladino, 2009), technology orientation (Jeong, Pae, & Zhou, 2006), product orientation (Shaw, 2000; Fritz, 1996), entrepreneurial orientation (Bhuian, Mengue, & Bell, 2005; Frishammar & Horte, 2007; Schindehutte, Morris, & Kocak, 2008; Baker & Sinkula, 2009; Tajeddini, 2010; Hoq & Chauhan, 2011) and learning orientation(Lee & Tsai, 2005; Atuahene-Gima, Slater, & Olson, 2005; Baker & Sinkula, 2002; Keskim, 2006). Studies by Liu, Luo, and Shi (2002) and Liu, Luo, and Shi (2003) found positive effect of entrepreneurial orientation, market orientation and learning orientation on corporate entrepreneurship, while Barrett, Balloun, and Weinstein (2005a, 2005b) found that entrepreneurial orientation, market orientation and learning orientation correlates with performance of non-profit organizations. Hult, Hurley, and Knight (2004) and Zehir and Eren (2007) further found that entrepreneurial orientation, market orientation and learning orientation are all positively related to performance of large-scale organizations while Ruokonen and Saarenketo (2009) and Kropp et al. (2008) have tested the effects of the three orientations on new venture performance and internationalization. Meanwhile Rhee et al. (2010)'s study found simultaneous effect of entrepreneurial orientation, market orientation, learning orientation on innovation performance, Li (2005) concurred that entrepreneurial orientation, market orientation and technology orientation have positive effect on networking and performance, and Salavou (2005) found that learning orientation, market orientation and technology orientation have a combined effect on new product performance

RESEARCH METHODS

This study adopted an explanatory research. The basic idea behind explanatory research was to measure variables using data collected from a representative sample and then to examined relationships among the variables. This design was best for investigating effect of strategic orientations on SME performance The population of study comprised registered SMEs where owners/managers in Nandi County. According to Nandi County records there were 2053 in Kapsabet Town registered SMEs, (Company Registrar, 2013). From the target population of 2053 SMEs, Taro Yamane (1973) sample size formula was used to select a sample size of 335 SMEs The study used Cluster sampling technique to select the SMEs where owners/managers were picked. The research utilized both primary and secondary data. The secondary data was obtained from previous reports as well as the internet. The primary data on the other hand was obtained from questionnaires. Cronbach's alpha was used to determine reliability, where Cronbach's coefficient, having a value of more than 0.6 was considered adequate for such explanatory work (Heir et al, 2006).

Descriptive methods were employed in analyzing qualitative data where frequencies and proportions were used in interpreting the respondent's perception of issues that were raised in the questionnaires so as to answer the research questions. Descriptive statistics such as frequency distribution, percentages, means and standard deviations were calculated and data presented in form of tables, graphs and charts were used. Inferential statistics was used to draw implications from the data with regard to the regression model. In order to test for multicollinearity among the predictor variables, variance inflation factor (VIF) and tolerance were applied. The tolerance indicator for predictor variables greater than 0.1 and VIF values less than 10 indicates that there was no multicollinearity problem (Neter *et al* -1996), (Ott and Longnecker 2001). Variables were tested at a significant level of 0.01 (1%) and data presentation was done using tables.

ANALYSIS AND RESULTS

This chapter covers data analysis and findings of the research. The study sought to collect data from 335 respondents, a total of 306 respondents responded constituting 91.34% of the respondents' rates. In terms of respondent's age, 65.4% (200) were below 25 years, 26.1% (80) were in the range of 26 to 30 years, 6.5% (20) of them are between 36 and 40 years, 1.3% (4) are over 40 years with 0.7% (2) of the respondents being between 31 and 35 years of age. 65.4% of the respondents are below 25 years. This is the age bracket that is actively involved in business activities., 4.1, 55.9% (171) of the respondents are male and 44.1% (135) are female. This indicates that more male individuals are in business, 63.7% (195) of the respondents are single, 30.1% (92) are married, 5.6% (17) are separated and 0.7% (2) are divorced. As observed earlier, majority of the respondents are below 25 years indicating that they are majorly the youth. Thus, the result that majority of the respondents are single is a confirmation that the youth are majorly involved in entrepreneurship. Additionally, The results revealed that 59.8%

(183) of the respondents are holders of a degree, 15.7% (48) high school certicificate, 13.4% (41) A-level and 11.1% (34) of the respondents college level of education. This indicates that the respondents in this study had high level of academic qualification and thus were considered ideal in this study as they would be relied upon to give informed opinion as sought by the study.

Descriptive statistics

The factor solution should explain at least half of each original variable's variance, so the communality value for each variable should be 0.50 or higher. The study requested that all loading less than 0.5 be suppressed in the output, hence providing blank spaces for many of the loadings. Thus from the findings in table 1, all values for all the factors were more than 0.5 reflecting the accepted value of factor loading.

Table 1. Descriptive statistics

	N=306	Mean	Std. Deviation	Skewness	loadings
Customer Orientation	I believe in obtaining client or customer feedback on the services we offer	3.91	0.967	-0.581	0.871
	We make decisions based on Intel from our relationship manager information	4.06	0.738	-0.187	0.604
	Information regarding quality of our products and services gives us leverage in product design and packaging	3.93	0.759	-0.746	0.773
	Customer requirements are incorporated in packaging, branding and overall customization of the products to meet customer preference	3.86	0.849	0.02	0.855
	We value customer feedback "they come first"	4	0.87	-0.534	0.714
	Our firm has a strong team that is tasked with obtaining and addressing customer concerns	3.76	1.029	-0.26	0.402
Technology Orientation	Our firms policy is to adopt up to date technologies	3.45	1.049	-0.341	0.835
	Our firm purchases and uses technologies to position itself ahead of competitors	3.99	1.077	-0.687	0.941
	Our firm is often to be the first to try out new methods and technologies	3.83	0.807	-0.706	0.777
	Our firm frequently improves internal processes such as speed , reliability and information management	3.8	0.989	-0.52	0.769
	Our firm allocates resources for investments in latest technologies and future forecasted technological changes	4.17	1.067	-1.078	0.865

Correlation Results

Thus, the study analyzed the relationships that are inherent among the independent and dependent variables. The results regarding this were summarized and presented in Table 2. Moreover, customer orientation was positively correlated with firm performance ($r = 0.450$, $\rho<0.01$).. Additionally, technology orientation was indicated to be positively correlated with firm performance ($r = 0.323$, $\rho<0.01$). This implies that customer Orientation and technology Orientation are expected to influence firm performance.

Table 2. Correlation Statistics

	Firm performance	Customer Orientation	Technology Orientation
firm performance	1		
Customer Orientation	.450**	1	
Technology Orientation	.323**	-0.029	1

** Correlation is significant at the 0.01 level (2-tailed).

Multiple Regression

Table 3 illustrates the model summary of multiple regression model, the results showed that all the five predictors (customer Orientation and technology Orientation) explained 55.9 percent variation of firm performance. This showed that considering the five study independent variables, there is a probability of predicting firm performance by 55.9% (R squared =0.559).

Table 3. multiple regression

	B	**Std. Error**	**Beta**	**t**	**Sig.**	**Tolerance**	**VIF**
(Constant)	0.821	0.194		4.225	0.000		
Customer Orientation	0.152	0.047	0.169	3.237	0.001	0.538	1.859
Technology Orientation	0.165	0.031	0.216	5.329	0.000	0.899	1.112
R Square	0.559						
Adjusted R Square	0.551						
Durbin-Watson	1.97						
F	75.955						
Sig.	.000b						

A Dependent Variable: Firm Performance

Hypothesis Testing

Multiple regression analysis was conducted so as to determine the relationship between firm performance and the five variables. The regression equation becomes:

Firm performance = $(0.821) + X_4(0.169) + X_5(0.216) + e$

According to the regression equation, taking all factors into account (learning orientation, entrepreneurial orientation, market orientation, customer Orientation and technology Orientation) constant will be 0.821. Hypothesis testing is based on standardized coefficients beta and p-value to test whether the hypotheses are rejected or not.

$H_{01:}$ *Customer orientation has no significant effect on firm performance*

Table 3 further shows that customer orientation has a positive and significant effect on firm performance with a beta value of $\beta 4 = 0.169$ (p-value = 0.001 which is less than $\alpha = 0.05$). Therefore, the researcher rejects the null hypothesis and it is accepted that for each unit increase in customer orientation, there is 0.169 unit increase in firm performance. In conformity with the results, McEachern and Warnaby (2005) note that customer orientation entails putting customers' interest at the centre of strategic focus hence bringing about high business performance. Further, in corroboration with the study results, Nakata and Zhu (2006) assert that customer orientation encompasses the analysis of customers' needs, and responsiveness of organization to such needs hence contributing to improved firm performance. Additionally, customer orientation makes it possible for firms to understand the market place and thereby enabling firms to develop appropriate product and services to meet customer needs and requirements (Cross et.al.; 2007 and Liu, Luo& Shi, 2003).Eventually, improved SME performance is realized.

$H_{02:}$ *Technology Orientation has no significant effect on firm performance*

Finally, as evidenced in table 3, p-value is significant ($p < 0.05$), and the beta value of technology orientation was positive (beta = 0.216). Therefore, the researcher rejects the null hypothesis and concludes that technology orientation has a significant effect on firm performance. In agreement with the results, Chandler, (2000) argues that technologically-oriented firms devote their resources to acquiring new and advanced technologies hence contributing to high firm performance. In a similar vein, Huber, (2001) asserts that firms that have a high technology orientation are able to introduce new processes, products and services to satisfy customer needs thereby contributing to improved firm performance. Further support to the study findings is by Tsai, (2004) who notes that with superior TC can secure greater efficiency gains by pioneering process innovations and can achieve higher differentiation by innovating products leading to improved performance.

CONCLUSIONS AND RECOMMENDATIONS

The study has found a positive relationship between technology orientation and SME performance. Precisely, SMEs have been in the forefront in allocating resources for investment in latest technologies in order to position themselves ahead of competitors. As such, through technology, SMEs are able to improve internal processes such as speed, reliability and information management. In light of the foregoing, SMEs have developed competitive advantage since they are always the first to try out new methods and technologies.

Further, customer orientation has a positive and significant effect on SME performance. Therefore, whenever SMEs build high customer lifetime value, there is increased profit which is indicative of improved performance. In most cases, customer concerns are met through the feedback received from customers. With information on customer feedback, SMEs are therefore capable of incorporating customer requirements in packaging, branding and overall customization of the products so as to meet their preference. Ultimately, customer orientation contributes to improve SME performance.

The study has revealed that customer orientation has a positive effect on SME performance. There is therefore need for SMEs to make their decisions based on Intel from the manager and believe in obtaining customer feedback on the services they offer. More importantly, customer requirements need to be incorporated in packaging, branding and overall customization of the products in order to meet customers' preferences.

To sum up, the study has established that technology orientation has a positive and significant effect on SME performance. It is therefore necessary for SMEs to allocate resources for investments in latest technologies and future forecasted technological changes. Also, SMEs need to use the technology they utilize to attain competitive advantage. Furthermore, internal processes such as speed, reliability and information management need to be improved frequently.

LIMITATIONS AND FURTHER RESEARCH

Based on this research and literature review, it is still perceived that all the factors are equivalently related to improvement of SME performance. Since the current research was limited to SMEs in Nandi County, there was a limited sample available from the population. A larger sample and a more specific instrument might be desirable and might validate the uncertainty among the respondents in regards to entrepreneurial orientation. Further, this study based its findings on perceptions of owner/ entrepreneur about strategic orientation, future research in this area should consider a longitudinal study where SMEs are asked to operationalize certain Orientations over a period of time and then the firm performance is measured before and after such a trial period. Other avenues of future research in the area of strategic orientation and firm performance, relate to some of the inconclusive or contestable findings encountered in the study.

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