

**Effect of Entrepreneurial Orientation on Business Performance**  
**A Study on Small Enterprises' of Addis Ababa**

A Thesis Submitted to the School of Graduate Studies of Jimma  
University in Partial Fulfilment of the Requirements for the Award of  
the Degree of Master of Business Administration (MBA)

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**June 2020**

## DECLARATION

I declare that the research Report entitled “**Effect of Entrepreneurial Orientation on Business Performance: A Study on Small Enterprises’ of Addis Ababa**” submitted to Research and Postgraduate Studies’ Office of Business and Economics College is original and it has not been submitted previously in part or full to any university.

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Date: 01 June 2020

## CERTIFICATE

We certify that the Research Report entitled “**Effect of Entrepreneurial Orientation on Business Performance: A Study on Small Enterprises’ of Addis Ababa**” was done by Ms. Siranesh Mebratu Belay for the partial fulfilment of Masters Degree under our Supervision.

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## **Acknowledgments**

This thesis becomes reality with the kind support and help of many individuals. I would like to express my deepest heartfelt thanks to my advisors Dr. Chalchissa Amente and Mr. Frew Mulatu for their limitless effort, encouragement, academic inspiration as well as productive and helpful comments starting from research proposal to the end of thesis write up.

I would also like to thank employees of Addis Ababa City Administration small and medium Manufacturing Industry Cluster Development Corporation who did their best to provide me data that were useful for the conduct of this thesis.

Many thanks and appreciations also go to my colleagues and peoples who have helped me out with their ability.

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## Acronyms

EO	Entrepreneurial Orientation
FDRE	Federal Democratic Republic of Ethiopia
ICT	Information Communication Technologies
MFI	Micro Finance Institution
MSE	Micro and Small Enterprises
SPSS	Statistical Package for Social Science
FSMMIDA	Federal Small and Medium Manufacturing Industry Development Agency
AACASMMICDC	Addis Ababa City Administration small and medium Manufacturing Industry Cluster Development Corporation

## ***Abstract***

*The focus of the study was to investigate the Effect of Entrepreneurial Orientation (EO) on Business Performance in Case of Small Enterprises in Addis Ababa. The study applied correlational research design to identify and evaluate the relationship between Entrepreneurial Orientation and Small Enterprise Business Performance. Both quantitative and qualitative research approaches were used to collect data through the utilization of a questionnaire in the form of Likert scale, open ended questionnaire and interviews. A total of 200 questionnaires were distributed to respondents and 180 of them were returned back. The finding of the study revealed that autonomy and innovativeness has high effect on the performance of small enterprise while the remaining (pro-activeness, competitive aggressiveness and risk taking) has a moderate role in impacting small enterprise performance. Results from Pearson Correlation Coefficient, there were strong significant correlation existed between SE Business Performance and innovativeness ( $r=.687^{**}$ ) and autonomy ( $r=.671^{**}$ ) respectively. Other variables such as risk-taking( $r=.431^{**}$ ) pro-activeness( $r=.392^{**}$ ) and competitive aggressiveness( $r=.469^{**}$ ) has Moderate correlation. From an open ended question determinate challenges that has adverse effect on entrepreneurial orientation were lack of access to capital, poor infrastructure, lack of experience, lack of working premises and lack of market linkage or access to market. Therefore, based on the finding, the researcher recommends, the government should solve the problems of lack of access to capital, poor infrastructure, lack of experience, lack of working premises and lack of market linkage or access to market and small enterprise owners and managers should give autonomy to their employees to enhance their innovative capacity.*

***Key words: innovativeness, autonomy risk-taking, pro-activeness, competitive aggressiveness and Small Enterprises performance***



# Chapter One: Introduction

## **1.1 Background of the Study**

Small Enterprises have become engines of poverty reduction, employment creation and business development among others in various countries worldwide. In the current global economy, small and medium enterprises progressively being regarded as powerful engines for economic performance and development of most economies. Industrial development policy authorities in most developing countries globally have realized the substantial contribution made by SEs towards attainment of sustainable local economic development and poverty reduction through creation of job opportunities (Fekede, 2019)

Similarly, in Ethiopia small enterprises (here after SEs) play crucial role for socio-economic development and serves as vehicles for employment opportunities and ways of enhancing wealth creation by support the economic growth. They have become significant employment contributors and can function successfully in many areas of Ethiopia. However, their effectiveness depends on their entrepreneurship quality and productivity level of employment and available resource. Limited entrepreneurship orientation, access to financial services, lack of partnership and networking, absence of technical and business skills among other are major obstacles in the sector (Getabil, 2019)

There is consensus among policy makers, economists, and business experts that small enterprises are drivers of economic growth. A healthy SE sector contributes prominently to the economy through creating more employment opportunities, generating higher production volumes, increasing exports and introducing innovation and entrepreneurship skills. The dynamic role of SEs in developing countries insures them as engines through which the growth objectives of developing countries can be achieved (Edmore Mahembe, 2011).

In Ethiopia, SEs sector is the second largest employment-generating sector following agriculture (CSA, 2017:34-35). A national survey conducted by Ethiopian Central Statistical Authority (CSA) in 2017 in 48 major towns indicates that nearly 885,000 and 3,800 operators engaged in small scale

manufacturing industries, which absorb about 840,000 labor forces. Accordingly, the whole labor force engaged in the SE is more than eight folds to that of the large scale enterprises

Though SEs an engine of economic development in developed world, they couldn't be performing with their full potential in the less developed countries. As researchers (Lumpkin & Dess, 1996) point out that low level performance of SEs in particular with their entrepreneurship orientation is an obstacle for their development. Moreover, they assert that entrepreneurial orientation (hereafter EO) is a firm-level construct that has been closely linked to entrepreneurial success through strategic decision-making in SEs.

EO is a firm's level strategic orientation, one that captures the specific entrepreneurial aspects of decision-making styles, methods and practices. EO can be considered as a key concept particularly in the performance of small enterprises which requires strong entrepreneurial behavior to be competitive in the market. Innovativeness, pro-activeness, risk taking, autonomy and competitive aggressiveness are important dimensions of entrepreneurial orientation by which the firm's entrepreneurial behavior explained (Wiklund & Shepherd, 2005).

As Miller (1983) remarks, conceptualization of entrepreneurial orientation entertains mainly two predominant approaches; unidimensional and multidimensional approaches. Based on the unidimensional conceptualization, EO is combination of three dimensions: innovativeness, pro-activeness and risk taking. These dimensions are considered as composite measures to show whether a firm is entrepreneurial or not. The alternative prominent conceptualization is the multi-dimensional approach which increases the EO dimensions to five with additional autonomy and competitive aggressiveness; and contrarily argues that these dimensions can independently or certain combination determines the entrepreneurial behavior of a firm.

## **1.2 Statement of the Problem**

In the current dynamic world small enterprises is identified as engine of growth and playing a significant role in economic growth, innovation, employment generation and poverty reduction.

However, to survive and grow well in the dynamic business environment, small enterprises (SEs) have to formulate and implement their strategy by engaging in entrepreneurial behaviors. One remarkable concept of strategy making in strategic management and entrepreneurship literatures is entrepreneurial orientation (EO).

A number of studies (Wiklund & Shepherd, 2005) in entrepreneurship and business strategy disciplines have addressed the relationship between entrepreneurial orientation (EO) and performance and many of them concluded the existence of positive relationship between an EO and SMEs performance. On the contrary, researchers (Rauch & Frese, 2009) found out that the relationship which exist between EO and SEs performance is either weak or does not hold at all. This justifies the need for further studies in the subject matter.

In Ethiopia, though the study of (Bereket & Abdell, 2017) indicates the existence of positive influence over SEs performance. Furthermore, they assert that EO is a base line for the transformation of SEs in to Medium enterprise in the country.

A report from city government of Addis Ababa small and medium enterprise corporation (2018/9) point outs small enterprises in city were not functioning as planned. They planned to be a means to transformation but they were challenged by internal (lack of entrepreneurship quality, weak record keeping and finance management, lack of working in cooperative and lack of experience and experience sharing between and among themselves) and external challenges (lack of access to capital, infrastructure, working premises and lack of market linkage)

On the other hand, (Ayalew A., & Jaladi.R.,2019) remarks only three dimensions of EO (Risk taking, Pro-activeness and Competitive aggressiveness) have the positive impact on performance, whereas the remaining two dimensions (Innovativeness and Autonomy) have a negative impact on the success of small scale enterprise.

From preliminary observation, small enterprise owners were blaming the Addis Ababa city administration of not providing working premises, access to loan, lack of infrastructure and problem problems related to lack of support and market related issues.

Thus the above observed gaps and empirically inconsistent results justify the need for further research on the subject matter. In addition to this, most of the researchers focus mainly on two or three dimensions of (EO). Due to such reason, this study examined all five dimensions (risk taking behavior, innovativeness, competitive aggressiveness, and pro-activeness and autonomy) of Entrepreneurial orientation (EO) over its effect on SEs business performance by taking Addis Ababa as case area.

### **1.3 Research Question**

1. How Risk taking behaviors affect SEs performance in Addis Ababa?
2. How Pro-activeness affect SEs performance in Addis Ababa?
3. How competitive aggressiveness affect SEs performance in Addis Ababa?
4. How innovativeness affects SEs performance in Addis Ababa?
5. How autonomy affect SEs performance in Addis Ababa?

### **1.4 Research Objective**

#### **1.4.1 General Objective**

The main objective this study is to investigate the effect of entrepreneurial orientation dimensions on the business performance of small scale enterprises in Addis Ababa.

#### **1.4.2 Specific Objective**

1. To evaluate the effect of risk taking behavior in SEs performance in Addis Ababa.
2. To evaluate the effect of Pro-activeness in the performance of SEs in Addis Ababa.

3. To evaluate the effect of competitive aggressiveness in the performance of SEs in Addis Ababa.
4. To evaluate the effect of innovativeness in the performance of SEs in Addis Ababa
5. To evaluate the effect of autonomy in the performance of SEs in Addis Ababa.

## **1.5 Significance of the Study**

**For Managers:** This study will enhance the understanding of EO performance relationship for managers and Owners of SEs and develop entrepreneurial behavior in formulating their firm strategy to achieve competitive advantage.

**For Owners:** It will also help SEs owners and manager to evaluate the EO dimensions and emphasize more strongly on implementation of the dimensions that adds value.

**For Policy Makers:** In policy maker's perspective this study will provide insight for policy to develop strategy to support entrepreneurial activities and performance of SEs in Addis Ababa.

## **1.6 Scope of the Study**

It is hardly impossible to collect primary data in wider terms by reaching all the responsible potential stake-holders in SEs in the entire country, therefore the study area, is delimited to Addis Ababa. In addition to this, Enterprises that located all over the country were have different experience and reality in operating their business due to this reason the areal scope of the study is only in Addis Ababa.

Large enterprises were not included due to different experience in the sector. Regarding the sector manufacturing, service (retailer, transport and, ICT or maintenance service) and trades construction were included while urban agriculture, Tourism and mining were not included. The rationality why the above sectors are excluded due to operation reality of the business in Addis Ababa and the sector themselves were not operated in full fledge manner by small enterprises.

Though a number of other relevant factors could be possible in influencing EO and small firm's performance, this study has focused only on five major EO variables that are risk taking behavior, innovativeness, competitive aggressiveness, and pro-activeness and autonomy were under the subject of the study.

## **1.7 Methodological Scope**

The study applied correlation and regression analysis to identify and evaluate the relationship between and to determine effect of entrepreneurial orientation on small enterprise business performance. Both quantitative and qualitative data were used to through the utilization of a questionnaire in the form of Likert scale, open ended questionnaire and interviews.

## **1.8 Organization of the Study**

This study is organized in five chapters. The first chapter provides brief introduction of the study which includes, background of the study, statement of the problem, objectives and significance of the study, research questions, scope of the study, and organization of the study.

The second chapter includes both theoretical and empirical literature review and conceptual framework of the study. The third chapter consists of research method part, the research design, sampling and sampling techniques, source and study populations, data gathering tools and data analysis procedures. Chapter four will have data interpretation and analysis. Finally, the last chapter will contain summary of findings, conclusions and recommendations.

## **Chapter Two: Review of Related Literature**

This chapter presents reviews of theoretical perspectives and empirical literature of studies and their findings.

### **2.1 Overview of Micro and Small Enterprises**

There is no standard definition of SME, varying across different countries and also within financial institutions in the same country. The categorization of firms is based on qualitative features like organizational structure, legal entity and number of employees, and on quantitative features such as assets size, annual turnover and investment cost (Berger, 2007).

Definitions of what constitutes an SME vary quite widely from country to country and even within single countries, depending on the business sector concerned. Thus, there is no universal determinant or criteria of an SME. Much depends on the character of the relevant host country, and the profile of its own particular corporate sector, from which a relative measure of an SME is then typically made, sometimes on a rather arbitrary basis.

Some countries just use the number of employees as the sole criteria for determining whether a business is an SME or not. Other countries use this same criterion, plus an additional criterion based on either the value of the firm's assets or the size of revenues, typically denominated in the local currency. In cases where a currency value is cited, (either for assets or revenues), any marked inflation can pose a problem for the SME definition over time. The criteria for SMEs are updated in some countries from time to time. (UNESCAP, 2009)

SMEs are defined by the European Commission as having less than 250 persons employed. they should also have an annual turnover of up to EUR 50 million, or a balance sheet total of no more than EUR 43 million (European Commission 2003).

Table 2.1 Definitions of SMEs in different countries

No	Countries	Small Enterprise	Medium Enterprise	Source
1	Malaysia	having a sales turnover from RM 300,000 to less than RM 15 million and full time employees from 5 to less than 75	Sales turn over from RM 50 million and full time employees from 75 to not exceeding 200	SMEs corporation Malaysia 2013
2	European Union	< 50 employees and less than or equal to 10 Million euro	>250 employees and less than and less than or equal to 50 million euro	European commission (2005)
3	China	Less than 300 employees and less than 30 million yen	300-2000 employees and 30 million -300 million yen	SMEs development in China (2008)
4	Japan	20-50 employees	100-250 employees	Thematic guidelines for SMEs promotion (2013)

## 2.2 The Classification of Small and Medium Enterprises in Ethiopia

Table: 2.2 Classification of Small and Medium Enterprises in Ethiopia

No	Classification	Total capital	Number of employees
1	Small enterprise	100,001 to Birr 1, 500,000	6-30
2	Medium enterprise	1,500,001 to Birr 20,000,000	31 to 100 workers

Source: AACASMMICDC 2017 and FSMMIDA 2016.



In recognition of the important role that small and medium enterprises can play in creating income and employment opportunities and in reducing poverty, recently, the government of Ethiopia has given special attention to these enterprises.

According to the Federal Small and Medium Manufacturing Industry Development Agency Establishment Council of Ministers Regulation No.373/2016), and Addis Ababa City Government Small and Medium Manufacturing industry cluster development corporation by Council of Addis Ababa Regulation No. 83/2017 " Small enterprise" means an industry having a total capital, excluding building, from Birr 1 00,001 to Birr 1, 500,000 (One Hundred Thousand One Birr to One Million Five Hundred Thousand Birr) and engages from 6 to 30 workers including the owner, his family members and other employees.

"Medium enterprise" means an industry having a total capital, excluding building, from Birr 1,500,001 to Birr 20,000,000 (One Million Five Hundred Thousand One Birr to Twenty Million Birr), and engages from 31 to 100 workers including the owner, his family members and other employees.

### **2.3 Concept of Entrepreneurial Orientation (EO)**

According to (Lumpkin, 1996), entrepreneurial Orientation is one of the most popular concepts within entrepreneurship and business strategy. As a firm – level characteristic it refers to the strategy making process, which provides organizations with different entrepreneurial practices, activities and decisions that help firms to create value and perform effectively. Originally, although the concept of entrepreneurial orientation dates back to old management scholarly attention to the construct and its components were known from the seminal work of Miller (2011).

In Miller (1983) perspective entrepreneurial firm is one that “engages in product market innovation, undertakes somewhat risky ventures, and is first to come up with 'proactive' innovations, beating competitors to the punch. Miller’s unidimensional concept, he argued that for a firm to be entrepreneurial, it must possess high levels of innovativeness, risk taking and proactiveness all at once.

On the contrary to miller Lumpkin (1996) defined EO as the processes, practices and decision-making styles that lead to the new result. He called for two additional dimensions of EO -

“Autonomy” and “Competitive Aggressiveness” and conceptualized it as a multidimensional construct. He debated that an entrepreneurial firm may not have all the EO dimensions at the same time and that the dimensions may not relate to each other. This new perspective of the EO concept was distinct from Miller’s view and marked the beginning of alternative conceptualization of the construct.

As per Lumpkin (2009) remark EO represents the policies and practices that provide a basis for entrepreneurial decisions and actions. Thus, EO can be viewed as the entrepreneurial strategy-making processes that key decision makers use to endorse their firm’s organizational purpose, sustain its vision, and create competitive advantage(s).

Table -2.3 Selected Past Definitions of Entrepreneurial Orientation

Author	Definition of EO
Mintzberg (1973)	“In the entrepreneurial mode, strategy-making is dominated by the active search for new opportunities” as well as “dramatic leaps forward in the face of uncertainty” (p. 45).
Khandwalla (1976/1977)	“The entrepreneurial [management] style is characterized by bold, risky, aggressive decision-making” (p. 25, [ ] added).
Miller and Friesen (1982)	“The entrepreneurial model applies to firms that innovate boldly and regularly while taking considerable risks in their product-market strategies” (p. 5).
Miller (1983)	“An entrepreneurial firm is one that engages in product-market innovation, undertakes somewhat risky ventures, and is first to come up with ‘proactive’ innovations, beating competitors to the punch” (p. 771).
Morris and Paul (1987)	“An entrepreneurial firm is one with decision-making norms that emphasize proactive, innovative strategies that contain an element of risk” (p. 249).
Covin and Slevin (1998)	“Entrepreneurial firms are those in which the top managers have entrepreneurial management styles, as evidenced by the firms’ strategic decisions and operating management philosophies. Non-

	entrepreneurial or conservative firms are those in which the top management style is decidedly risk-averse, non-innovative, and passive or reactive” (p. 218).
Merz and Sauber (1995)	“. . . entrepreneurial orientation is defined as the firm’s degree of pro activeness (aggressiveness) in its chosen product-market unit (PMU) and its willingness to innovate and create new offerings” (p. 554)
Lumpkin and Dess (1996)	“EO refers to the processes, practices, and decision-making activities that lead to new entry” as characterized by one, or more of the following dimensions: “a propensity to act autonomously, a willingness to innovate and take-risks, and a tendency to be aggressive toward competitors and proactive relative to marketplace opportunities” (pp. 136–137).
Zahra and Neubaum (1998)	EO is “the sum total of a firm’s radical innovation, proactive strategic action, and risk taking activities that are manifested in support of projects with uncertain outcomes” (p. 124)
Voss, Voss, and Moorman (2005)	“. . . we define EO as a firm-level disposition to engage in behaviors [reflecting risk-taking, innovativeness, pro activeness, autonomy, and competitive aggressiveness] that lead to change in the organization or marketplace” (p. 1134, [ ] added).
Avlonitis and Salavou (2007)	“EO constitutes an organizational phenomenon that reflects a managerial capability by which firms embark on proactive and aggressive initiatives to alter the competitive scene to their advantage” (p. 567).
Cools and Van den Broeck (2007/2008)	“Entrepreneurial orientation (EO) refers to the top management’s strategy in relation to innovativeness, pro activeness, and risk taking” (p. 27).
Pearce, Fritz, and Davis (2010)	“An EO is conceptualized as a set of distinct but related behaviors that have the qualities of innovativeness, pro activeness, competitive aggressiveness, risk taking, and autonomy” (p. 219).

Source: Adopted from (Covin& Wales, 2012)

## **2.4 The Dimensions of Entrepreneurial Orientation**

### **2.4.1 Autonomy**

Depending on the business structure and the management style the principle autonomy is mostly applied by the decision maker. This will in most cases be the entrepreneur or the manager. Casillas and Morena (2010: 270) state that autonomy constitutes one of the bases for innovative and entrepreneurial behavior. Lumpkin and Dess (1996: 140) define autonomy as the willingness and the ability to work independently when acting on an opportunity or when accepting an organizational challenge. Managers and entrepreneurs hold the rights to making decisions and they therefore only trust themselves to ensure the survival of an organization.

Some managers delegate autonomy to a lower level in the business. This creates autonomous leaders and very often results in improved decision making. In other countries delegating authority to blue collar workers is very common (Lumpkin & Dess, 1996: 140). The term autonomy further refers to an action of an individual or a team creating new ideas and visions and carrying it through to completion. Pursuing an opportunity with a great deal of determination is another way to define the term autonomy. Enterprise related factors with negative results such as a lack of access to resources may change the course of ventures but autonomy will not be distinguished by these factors (Lumpkin & Dess, 1996: 140).

Dawson (2012: 7) states that businesses operate more flexible with higher levels of productivity if owners give more autonomy to the managers of the businesses and implements control and formalization. It is advisable that the owners of South African SMME's also delegate authority in the decision making process to lower levels in an organization with the appropriate direction and control from management. Involving employees and by making them autonomous leaders can improve employee satisfaction and business success. This process however should be supervised to ensure satisfactory results and to eliminate undesired outcomes. The above research already indicates that there is to some extent a relationship between entrepreneurial orientation and perceived business success.

***H1: Autonomy has positive significant effect in the performance of SEs in Addis Ababa.***

### **2.4.2 Innovativeness**

Innovativeness focuses on the application and the development of creative solutions to common challenges arising in the business environment (Darling, Gabrielsson & Seristö, and 2007: 5). Having an entrepreneurial orientation means to be committed to innovation, among other dimensions in the strategic process (Kuratko & Audretsch, 2009: 3). Lumpkin and Dess (1996: 142) say that innovativeness reflects a tendency for a business to engage in and support creative processes, new ideas, novelty and experimentation that may result in new products, services or technological processes. The first mover business developing a new product or service not yet in existence therefore immediately dominates the market in that scope provided that there is a need in the market for that product or service. Other businesses may follow afterwards with similar products to compete but by that time, the first mover business may have already achieved its financial and prospective goals and a new product or service is yet again almost ready to be launched.

Caruana, Ewing and Ramaseshan (2002: 43) describe innovation as the central value of entrepreneurial behavior and that it provides solutions to problems and needs. Creativity of employees very often lead to innovation and employees should be encouraged to utilize their creative minds. Some researchers imply that innovation is creativity; this concept is technically incorrect as innovation is described as an outcome of creativity.

Most of the explanations and definitions of innovation represents a starting point from practices or conditions already in existence (Schilling, 2005: 43). Johnson (2001: 139) says that process innovation can be regarded as any change in the way a product or service is created or delivered and in most instances this innovative process will be invisible to the user, except for physical changes.

***H2: Innovativeness has positive significant effect in the performance of SEs in Addis Ababa.***

### **2.4.3 Risk-Taking**

Sharma and Dave (2011: 50) elaborate on the discovery that was made that mentions risk-taking as the dimension of entrepreneurial orientation that has the highest impact on the success of a business compared to innovativeness and pro-activeness. Risk-taking refers to instantaneous explicit actions taken in moments of uncertainty.

(Caruana et al., 2002: 45).) Explain that without the willingness to take risk there can be no innovation and opportunities promising a bright future will not be captured easily. Calculating and assessing the risks involved is a very appropriate approach but the rewards should always be kept in mind. Risk is inherent in the operations of a business and decisions taken by managers and owners always involve risk. A risk is often an opportunity not yet recognized (Caruana et al., 2002: 45). There are many types of risks and risk-taking is broadly defined. The most suitable definition in terms of entrepreneurial orientation would be to acknowledge that risk-taking is the degree to which managers and entrepreneurs are willing to make large and risky resource commitments (Lumpkin & Dess: 1996).

The term risk is defined by (Dewett, 2004: 258), as the extent to which there is uncertainty about the outcome of a decision. When developing a new product or service the manager or entrepreneur has to consider the financial implications with regard to the cost of introducing that product or service and the marketing implications such as the price of the product, how it should be promoted and if there is a demand for that product in the market. Decisions have to be made with regard to the new product or service and these decisions involve risks. If the product is priced wrong the consumer will either not buy it or the company will not produce a profit; if there is no demand in the market for the product or service, the financial and time elements spent on development and research would be disadvantaged. In product development one should also consider if a product under development has deficiencies that cannot be resolved easily; this is considered an undesired outcome (Dewett, 2004: 258).

Taking risks concerns the business manager or the entrepreneur with regard to the decision on hand. Although the lives of the employees can be influenced by the decision taken, the entrepreneur or manager should also investigate the reward available. Organizations can establish a framework to assess risks and to identify opportunities that can lead to great success of the business. Taking risk is an essential part of business as well as everyday life and the wrong decision always leads to disappointment (Hopenhayn & Vereshchagina, 2002).

Taking risks sounds mostly unfavorable to entrepreneurs, but with risk comes opportunities and great reward. Hopenhayn and Vereshchagina (2002: 2) state that the relatively poor entrepreneurs tend to take more risk while at the same time investing less in their projects than the richer entrepreneurs. The risks should be measured and should further be controlled or eliminated to

ensure organizational benefit. This can be done by means of proper market research and statistical and mathematical methods.

***H3: Risk taking behavior has positive significant effect in the performance of SEs in Addis Ababa.***

#### **2.4.4 Pro-Activeness**

According to Madsen (2007: 187) pro-activeness refer to a posture of anticipating and acting on the future requirements of the market. First movers can control the market by dominating the distribution channels. It is further explained by Sharma and Dave (2011: 47) that a pro-active business should be considered a leader rather than a follower. Madsen (2007) supports this statement and further mentions that the pro-active businesses are usually the more sustainable businesses with innovative people and with entrepreneurs that are willing to take risks.

Implementing change in a business or in the product or service that the business provides does not define pro-activeness but a simple reaction to the current situation. By implementing change in the organization while analyzing the future implies acting proactively so that the business is prepared for what the future will bring (Lumpkin & Dess, 1996).

Rauch et al. (2009: 778) found that the dimension's innovativeness, risk-taking and pro-activeness are of equal importance in determining business success. By being proactive a business can identify and predict future expectations. This gives entrepreneurs the opportunity to prepare themselves accordingly in order to reap the maximum benefit from the coming events. From being proactive another dimension such as innovation or risk-taking is often also applied in conjunction in order to achieve the desired outcome.

***H4: Competitive aggressiveness has positive significant effect in the performance of SEs in Addis Ababa.***

#### **2.4.5 Competitive Aggressiveness**

Competitive aggressiveness is very similar to pro-activeness and it is therefore necessary to clarify the difference between these two dimensions. Competitive aggressiveness refers to how a business relates to competitors and how it responds to the existing demand in the market. It can be explained

as organizations in the market competing for demand (Chang, Lin & Chen, and 2007: 999). The reason for competitive aggressiveness is thus to outperform rivals in the market and to be prepared for possible competition (Antonic&Hisrich, 2003: 15). Pro-activeness, on the other hand, focuses on meeting the demand.

Competitive aggressiveness also reflects the willingness to be unconventional rather than to rely on traditional methods of competing (Lumpkin & Dess, 1996). This dimension is of importance to guide the entrepreneurial business to get a hold of and to retain the competitive advantage in the market. The dimensions should be utilized to create and constantly improve company strategies to achieve organizational goals.

Knight (1997: 218) explains in his research that the dimensions competitive aggressiveness, risk-taking and pro-activeness should be included in the same dimension when measuring levels of entrepreneurial orientation. The five dimensions of entrepreneurial orientation is the guide to organizational success and entrepreneurial excellence if effectively applied. Entrepreneurs are the drivers of the entrepreneurial orientation construct but it is recommended that employees are encouraged to also participate as individuals in some of the dimensions to ultimately reap as much benefit as possible on all organizational levels.

***H5 Competitive aggressiveness has positive significant effect in the performance of SEs in Addis Ababa.***

## **2.5 Small enterprise Performance**

Prior literature on the measurement of performance revealed that there is no consensus among the researchers on the appropriate measures of business performance. The mutually agreed definition of performance is yet to be found (Andersen 2010). This is because it is a multidimensional concept (Lumpkin & Dess 1996), and has been conceptualized from divergent perspectives (Ramayah et al. 2011).

Andersen (2010) categorized performance in terms of what is being measured and how it is being measured. Other researchers categorized performance into financial measure such as sales growth and non-financial measures, for example the satisfaction levels of customers, employees and other stakeholders (Venkataraman&Ramanujam 1986). Generally, there are two approaches in



measuring performance: objective and perceptual (subjective) approaches (Andersen 2010). Most studies of EO are based on perceptual performance data (Andersen 2010). Many previous studies had found that the perceptual performance of a company is positively related to actual performance (Venkatraman & Ramanujam 1986). In addition, in the absence of suitable objective measures, perceptual measure is suggested (Day & Westley 1988).

## **2.6 Empirical Literature Review**

In order to conduct empirical literature review, the researcher delimits the time of reviews. In this part the researcher reviews the past 30 years in chronological order. In addition to this the researcher reviews from the global, continental and country wise.

A study conducted by (Covin & Slevin, 1991) entitled the relationship between entrepreneurship and firm performance. The study found out that the incidence of firm-level entrepreneurial behaviors, i.e., the propensity to engage in relatively high levels of risk-taking, innovative and proactive behaviors is positively associated with organizational profitability and growth.

Another research studied by (Lumpkin & Dess, 1996) found that firms that adopt EO performed better than firms that do not adopt an EO. (Lumpkin & Dess, 1996) suggest that the relationship between EO and SEs performance is not that straightforward, rather it is influenced by the interference of various elements of organizational and industrial environment. The interaction effects for investigating the impact of other variables as a means of exploring contingency relationships could be addressed in the form of moderating effects, mediating effects or independent effects.

On the other hand, another studies (George, & Khan, 2001) however, failed to find a significant relationship between EO and performance which means that a high degree of EO is not always desirable in certain market and structural conditions. These literatures clearly indicate that there is a considerable variation in the reported relationships between EO and firm performance. If the relationship between EO and performance varies across samples that differ on a given attribute, such findings suggest that the attribute may be a moderator.

As per (Covin 1991) finding EO is a resource-consuming strategic orientation. It is the, access to more resources facilitates. Access to financial resources appears to be of particular importance to small firms. Financial resource is the most generic type of resource and can relatively easily be converted into other types of resources. Therefore, resource constraints in other areas can to some be mitigated by access to financial resources. Further, small firms often face difficulties obtaining equity and debt financing, putting severe restrictions on their but small firms involved in innovation and striving for high performance will have a great need for financial resources. Access to finance should interact with EO in explaining performance. It provides them the slack to experiment with new innovative strategies, greater access to financing can also mitigate the chance of risky projects becoming fatal, stimulating risk taking and pro-activeness, also, requires resources from existing processes and products and investing in new ones. It is recognized by policy-makers that MSEs need special help for their survival and growth

Beyene (2002) remarks that the financing service includes providing finance directly and indirectly to influence the start-up of new firms and running business through measures such as credits, loans, grants, tax relief MSEs' access to financing may either come from supply side market failure or demand side market failure. From the supply side, the lending institutions may shy off from MSEs funding due to fear of default, generally bracketing MSE sector as high-risk endeavor or from information asymmetry that happens to be experienced at a higher level in the sector. On the other hand, the demand side may be due to the entrepreneur lack of proper information, lack of business networking or business skills. Furthermore, a study conducted by (Kung'u, 2015) agrees with literature stating the successful implementation of EO as a strategic orientation appears to require access to considerable financial resources.

A research done by (Michel, Bowen, & Johnston, 2009) highlights the importance of resources (e.g. human resources, time, money etc.) for improved performance among firms Given their limited resources, small firms often face tremendous challenges in allocating their scarce resources to facilitate the development of specific activities. Consequently, those possessing a certain level of strategically important resources are more likely to develop and deliver superior products to customers better than competitors which are fundamental to capturing and retaining customers.

To strength the above idea, Kollmann (2014) point out substantial commitment of complementary marketing resources is required to support the firm's entrepreneurial behavior and facilitate the

enactment of marketing capability. Such resource commitments may be critical to providing the small firm with the necessary support to facilitate the development and delivery of superior offerings to customers in ways better than competitors. Thus, with better allocation of marketing resources, the value of EO increases because it provides small firms with the necessary condition required to support the link with customers and deliver superior products, which in turn help achieve first-mover advantages and superior performance. Conversely, when firms are destitute of marketing resources, they lack the essential factors needed to exploit their entrepreneurial behavior. Accordingly, they may be hindered from achieving superior performance given they are restricted from engaging in entrepreneurial activities and lack the critical resources to deliver superior offerings to customers that put them ahead of their competition. Further, given small firms' propensity to innovate frequently and take risks they are often faced with uncertain returns and high failure costs.

A study conducted by (Zeebaree & Siron, 2017) support that facilitate the external environment, will be effective only if the SMEs have the internal capabilities for taking advantage of the external facilitation. From several types of support for SEs, access to finance is regarded as primary and fundamental that makes small firms competitive in the market.

In addition, (Lee, &Sok, 2017) asserts marketing resources as the substantial amount of resources (e.g. people, time and money) that firms have to invest in marketing-related activities such as promotion, pricing, distribution, service development, business network relationships development and customer relationship development. Further, given small firms' propensity to innovate frequently and take risks they are often faced with uncertain returns and high failure costs. If resources are lacking, literature argue that, EO may not be realized as these conditions inhibit the actual implementation of the firm's entrepreneurial spirit.

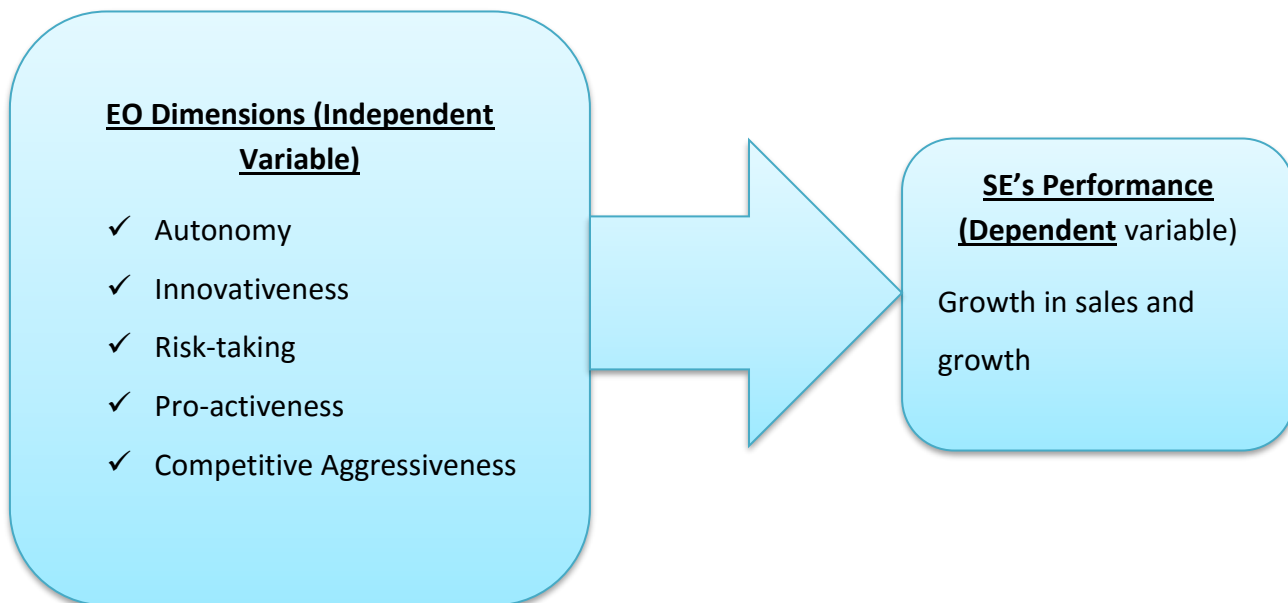
A study done by Haileeyesus T. Woldemichael (2018) remarks Entrepreneurial Orientation is one interesting area of research in business strategy and entrepreneurship disciplines in the last few decades, as it is influential concept in successful business performance. In his study both direct EO Performance relationship and interaction effects of access to financing (FNS) and marketing resources allocation (MKT) as moderators were examined in this relationship. Moderated hierarchical regression has been applied to see how EO as independent variable and MKT and FNS as moderators influence small enterprises' performance. In his analyses it is confirmed that

EO has positive and statistically significant ( $p < 0.01$ ) effect on small enterprises' performance. marketing resources allocation (MKT) and access to financing (FNS) are also found to moderate the relationship between EO and performance but negatively against the hypothesized direction ( $p < 0.01$ ).

## 2.7 Conceptual Framework

Based on the above explained theoretical and empirical review, the following conceptual framework is developed. It is hypothesized that entrepreneurial orientation has positive relationship with small firms' performance. In that, firms with higher level of entrepreneurial behavior will have better operational and financial performances. In the conceptual framework EO dimensions such as autonomy, innovativeness, Risk-taking, pro-activeness, competitive aggressiveness are independent variables while SE's performance that measured through perceived growth in sales and growth in profit are dependent variable.

Fig 2.1 Conceptual Framework



Source: Developed based on literature review, 2019

## **Chapter Three: Research Design & Methodology**

### **3.1 Research Design**

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. The function of research design is to provide for the collection of relevant evidence with minimal expenditure of effort, time and money (Kothari, 2004).

To find out the relationship between EO and small business performance the researcher, applied correlation analysis. Correlational research is a type of non-experimental research in which the researcher measures two variables and assesses the statistical relationship (i.e., the correlation) between them with little or no effort to control extraneous variables. In addition, regression analysis design was also applied to examine the effect of each entrepreneurial orientation dimensions on the performance of SEs.

### **3.2 Research Approach**

The research investigates effect EO on the performance of small business in Addis Ababa to address such objectives the study used mixed research approach more of quantitative. Mixed research approach gives the study more concise because the quantitative information would be supported by the qualitative explanation. (Croswell, 2003)

### **3.3. Type and Source of Data**

For accomplishing the research work and research objectives both primary and secondary data were collected.

#### **3.3.1. Primary Source of Data**

The primary data was collected from owners, managers and supervisors of small enterprises in the region through questionnaire and interview.

### **3.3.2. Secondary Source of Data**

With regard to secondary data source, relevant information was collected by consulting different pertinent documents such as Reg No.201/2011 Federal Micro and Small Enterprise Development Agency documents, Regulation No. 373/2016, Federal Small and Medium Manufacturing Industry Development Agency establishment, Council of Ministers Regulation and city government of Addis Ababa small and medium manufacturing industry cluster development corporation document or Addis negarite gazeta 83/2016.

### **3.4. Data collection instruments**

To accomplish the research objective both primary and secondary data were collected. In order to obtain reliable and sufficient information structured questionnaires were used as a data collection instrument. All the necessary data for this study were collected from the respondents through self-administered questionnaire, interview and document analysis.

#### **3.4.1. Questionnaire**

The researcher would employ questionnaire to obtain primary data from owners, managers and supervisors of small enterprises. Therefore, the questionnaire was developed in close and open ended form and also the 5 Likert scale (namely agree, strongly agree, neutral, strongly disagree and disagree) questionnaire be used. Under the closed ended questionnaire, the respondents only answer from a given alternative which limit them from further explanation of their feeling regarding to the title of the study, even if it is easier and quicker for the research to analyses it. This is why the researcher was developed these questionnaires in open ended form which give the respondents freedom to express their opinion or attitude towards their job freely without any limitation. The research instruments were adopted from Haileeyesus T. Woldemichael(2018).

#### **3.4.2. Interview**

The researcher used a face to face interview with city government of Addis Ababa city administration small and medium enterprise cluster development corporation, cluster administration office experts with semi structured interview format. The semi- structured interview

method of data collection gives an opportunity to clarify any issues raised by the respondents and to know more than what is written.

### **3.5 Data Collection Techniques**

Prior to conducting the actual data collection simple observation in each small enterprise site were conducted to establish some contacts with key informants and influential stockholders. Establishing strong relationship with cluster office experts and cluster campus leader (in Amharic ye gibe komete) the researcher distributed the questioner via the established channel. Secondary data were reviewed from available information. The information that collected through the questionnaire also posed the issues which should be addressed in greater depth and follow-up, and provides a basis for selecting individuals whose further participation was important.

### **3.6 Population and Sampling Procedure**

#### **3.6.1 Sampling Procedure**

Malhortra and Peterson (2006) and Zikmund (2003) stated that, the larger the sampling size of a research, the more accurate the data generated. However, due to time and financial limitations and the nature of the population, the researcher preferred to use a method developed by Carvalho (1984), as cited in Malhorta Naresh, K. (2007).

Table 3.1: Carvalho’s Sample Size Determination

Population Size	Small	Medium	Large
51-90	5	13	20
91-150	8	20	32
151-280	20	32	60
281-500	32	60	80
501-1200	60	80	125
1201-3200	80	125	200
3201-10000	125	200	315
10001-35000	200	315	500
35001-150000	315	500	800

Source: Malhorta Naresh, Marketing Research: an applied approach, 2007)

As per the data base of Addis Ababa City Administration small and medium Manufacturing Industry Cluster Development Corporation (AACASMMICDC) currently in Addis Ababa there are total of 2570 small scale enterprises which are distributed in ten sub cities. The following table shows the distribution of small scale enterprise among sub city.



Table 3.1: Distribution of Small Scale Enterprises in Each Sub City

No	Sub city	Number of small scale enterprises	Selected sample size
1	Addis ketema sub city	169	11
2	Kolife sub city	650	60
3	Arada sub city	127	11
4	Bole sub city	124	10
5	Nifas silk sub city	167	12
6	Gullele sub city	456	36
7	Yeka sub city	215	12
8	Lideta sub city	129	10
9	Kirkos sub city	213	13
10	Akakikality sub city	320	25
	Total	2570	200

Source: AACASMMICDC, 2019

As per the Carvalho's (1984 sample determination technique, the determined sample size is in the large category. Out of a total of 2570 small scale enterprise in Addis Ababa 200 of them were selected via approximate ratio method from each sub city. In addition to this, the researcher purposely exploits the sample to include all sectors in small enterprise.

Regarding sampling technique purposive or judgmental sampling technique were applied. Purposive sampling, also known as judgmental, selective or subjective sampling, is a type of non-probability sampling technique. Non-probability sampling focuses on sampling techniques where

the units that are investigated are based on the judgement of the researcher. The reason why the researcher selects this technique is the time that enterprises stay being a small scale should be at list three years. Therefore, any small scale enterprise under three years were not a part of the study.

### **3.7 Data Analysis Techniques**

Data from questionnaires was summarized, edited, coded, tabulated and analyzed. Editing was done to improve the quality of data for coding. The data collected using the structured questionnaire was coded and analyzed using Statistical Package for Social Sciences (SPSS) 20 version software. The researcher used both descriptive and inferential data analysis techniques.

In descriptive statistics (frequency, percentage, mean and standard deviation) method was made based on the results of the tables and figures. The results of the study were presented using tables and chart.

In order to conduct the person correlation coefficient and linear regression the questionnaires were collected in the form of Likert scale which is ordinal in its nature were changed in to continuous data (having lower and upper bond) by making average of each question and calculating the data of the variable. From the regression result the researcher conducted hypothesis testing. This is where the researcher use sample data to answer research hypothesis.

As Kothari (2004) point out that inferential statistics takes data from samples and make generalizations about a population.

### **3.8 Validity and Reliability of Research Instruments**

The researcher was try to consult advisor while adopting and modifying the questioner to check the validity. Cronbach's alpha reliability coefficient was used to calculate and estimate the reliability of the data

Table 3.1 Cronbach's alpha reliability coefficient

No		Cronbach's Alpha	N of Items
1	Autonomy	0.788	5
2	Innovativeness	0.837	5
3	Risk-Taking	0.841	3
4	Competitive Aggressiveness	0.899	4
5	Pro-Activeness	0.886	3
6	SE Performance	0.831	4
	Total	0.847	24

Source: Researcher Survey, 2020

### 3.9 Model Specification

To examine the effect of Entrepreneurial orientation (EO) on business performance in case of Small enterprises (SEs) in Addis Ababa the following linear regression model is developed. Variables are carefully selected in review of literature which needs to be specified. Linear regression techniques employed to analyze the straight-line relationships among two or more variables and estimates the  $\beta$ 's in the equation. Ordinary Least Square (OLS) model for linear relationship among variables is developed as follows

$$y_j = \beta_0 + \beta_1 x_{1j} + \beta_2 x_{2j} + \dots + \beta_p x_{pj} + \varepsilon_j$$

Where:

$Y_j$  is represents dependent variable for observation  $j$ .

$X_j$  is represents the independent variables (IV's) for observation  $j$

$\beta_0$  is the intercept

$\beta$  is the unknown regression coefficients.

$\epsilon_j$  is the error (residual) of observation  $j$ .

Based on the above, the model is modified based on the research variables that described in the conceptual framework in chapter two, to examine the effect of Entrepreneurial orientation (EO) on business performance in small scale enterprise (Gujarat, 2004)

$$PSSE = \beta_0 + EO + \epsilon_i \text{-----1}$$

$$PSSE = \beta_0 + \beta_1 AU + \beta_2 RT + \beta_3 CA + \beta_4 IN + \beta_5 PA + \epsilon \text{-----2}$$

PSSE= Performance of small scale enterprise (Dependent Variable)

EO= Entrepreneurial orientation (dimension of Independent Variable)

$\beta_1 AU$ =Autonomy

$\beta_2 RT$  =Risk Taking

$\beta_3 CA$  =Competitive Aggressiveness

$\beta_4 IN$  =Innovativeness

$\beta_5 PA$ =Pro Activeness

$\epsilon_i$  = uncontrolled variable or the error term

### 3.10 Ethical Consideration

During data collection, respondents were informed why the data is collected. The privacy of respondent kept safe. Moreover, respondents expected to provide their response voluntarily. Finally, any work of scholar would acknowledge at reference part.

## **Chapter Four: Data Analysis, Discussion and Interpretation**

### **4.1 Introduction**

In this chapter data analysis, discussion and interpretation will be covered. The analysis and interpretation of the various data collected through the use of data collection instrument as per objectives of the study. The main emphasis of the research was to investigate the effect of entrepreneurial orientation on business performance in case of small enterprises (SES) in Addis Ababa. Primary data was collected from owners, supervisors and managers of small scale enterprise. Primary Data were collected by questionnaire and interview questions by using structured, semi structured and open ended questionnaire and secondary data was collected through reviewing, journals, articles, books and small scale enterprise policy, procedure and annual reports of Addis Ababa city administration small and medium manufacturing industry cluster corporation annual reports.

This chapter contains three parts, the demographic part, the descriptive analysis part and the inferential analysis part specifically it contains the correlation and regression analysis were presented in the last part.

The collected data were described and analyzed using statistical tools: Descriptive and inferential statistics including linear regressions with the help of SPSS. The total number of industrialists including managers, supervisors and owners in Addis Ababa region are 2570. Based on Carvalho's (1984) sample size determination formula 200 industrialist were taken as sample of the study. Out of the distributed questionnaires 20 respondents did not return the questionnaires and reduced to total response rate of about 90%. The total number of questions was 20 which are the sum questionnaires under each variable and below is the analysis of the collected data.

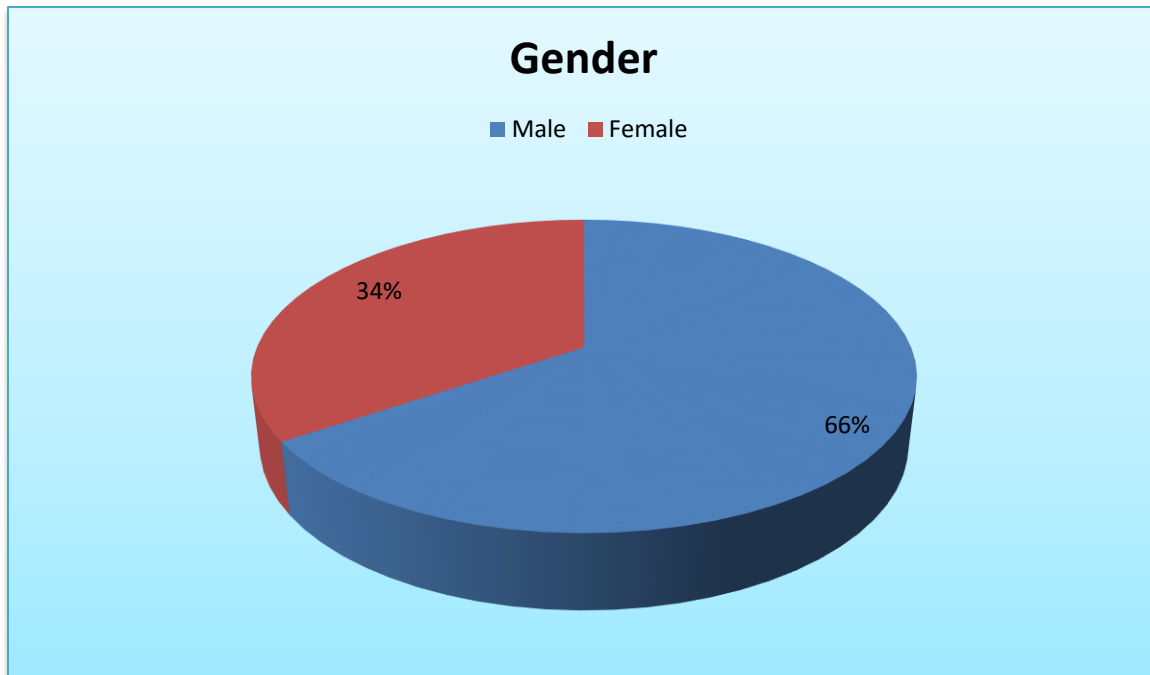
## 4.2 Demography of Respondents

The demographic information of respondent gathered for these studies were gender, age and educational level, Job Position in their Small Scale Enterprise and how old is the establishment of small scale enterprise.

### 4.2.1 Gender of Respondents

From the study participants, it involved gender distribution of respondents in order to answer the questionnaires provided. The following pie chart depicts that respondent of male and female participants. Out of 180 respondents 118(66%) were male while 62(34%) were females. This indicates that the owner, manager or supervisor of small scale industries in Addis Ababa were dominantly males. This implies that the male populations have the chance to be represented in every matter. Furthermore, it showed that the economic activities of the city were dominantly covered by males.

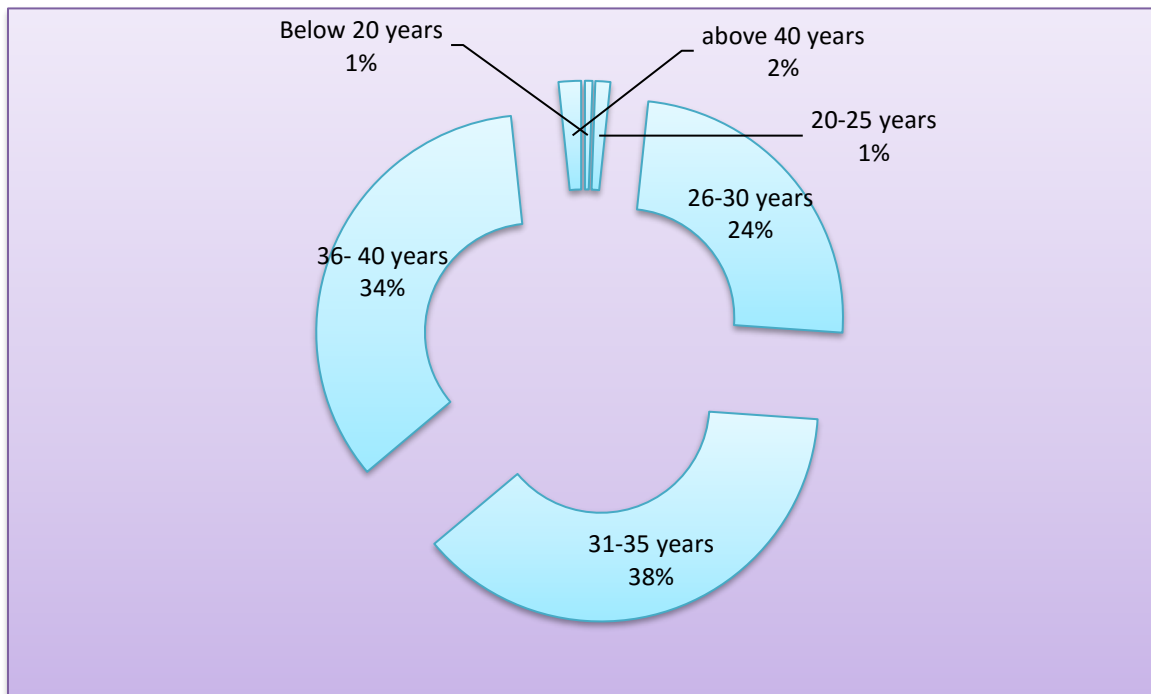
**Fig 4.1 Genders Distribution of Respondents**



Source: Survey Result, 2020

## 4.2.2 Age Distribution of Respondents

Fig 4.2 Ages Distribution of Respondents



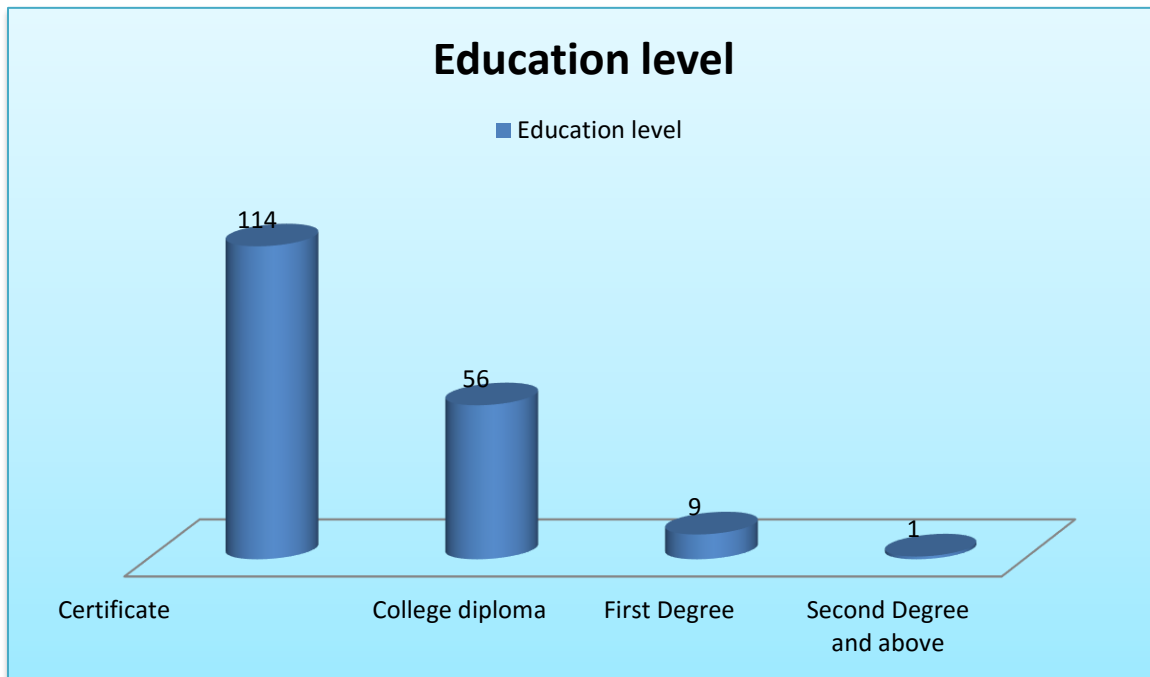
Source: Survey Results, 2020

Regarding the age group of respondents, the larger number of small scale business owners, managers and supervisors were between the ages of 31-35 which accounts 68 respondents representing to 37% of the total respondents. Second largest age groups which constitute 34 % of the respondents are 36-40 years of age. The third larger age group was 26-30 that accounts 24%. The rest covers 5% of the population which accounts below 20 and above 50 years. From this result we can observe that the majority of small scale owners and managers were at productive age group.

## 4.2.3 Educational level

Regarding the respondents educational background majority or 114 of them were certificate level and the second largest level were college diploma holders the remaining 10 respondents were first degree holder and above it. From this the majority of the small scale owners are certificate levels.

Fig 4.3 Educational Background of Respondents



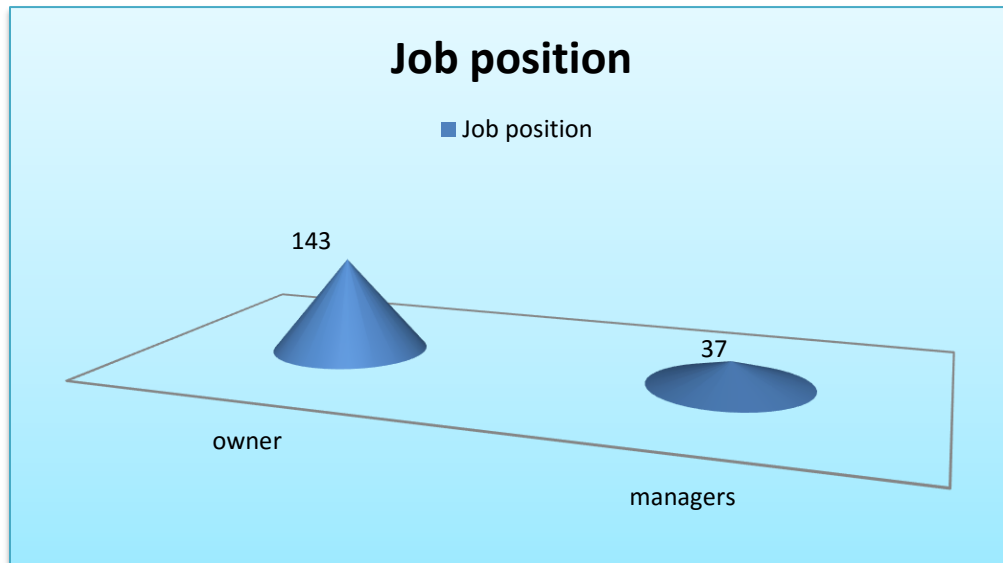
Source: Survey Result, 2020

#### 4.2.4 Job Position in Your Small Scale Enterprise

The role of participants in small scale was managers or owners. The majority of small scale enterprise was led by owners or out of 180 participants 143 were owners. Though they were established by shares, shareholders were leave of from the association and one or more individuals were owned the enterprise.



Fig 4.4 Job Position



Source: Researcher Survey, 2020

### 4.3 Descriptive Analysis

Descriptive analysis is all about summarizing the responses of participants in mean, frequency, tabulation or any other form. In this section, the collected data was entered and reported using SPSS. The mean value and standard deviation of each factor is analyzed and presented.

According to Kothari (2004) for a data set, the mean is the central value of a discrete set of numbers, specifically the sum of the values divided by the number of values. Standard deviation is a number used to tell how measurements for a group are spread out from the average (mean), or expected value. A low standard deviation means that most of the numbers are close to the average. A high standard deviation means that the numbers are more spread out.

### 4.3.1 Autonomy

Table 4.1 Mean and Standard Deviation of Autonomy

No	Autonomy	Mean	St. deva
1	Employees in my firm are given freedom and independence in doing their work, without depending on the owners or manager's direction	3.231	.120
2	In this firm, the owner/Manager (rather than employee initiative play major role in identifying and selecting the entrepreneurial opportunities this firm pursues	3.670	.890
3	The owner/Manager of this firm believes that the best result occurs when employees, as an individuals or a team, are able to decide for themselves what business opportunities to pursue.	3.873	.875
4	In this firm the individuals and/or teams perusing business opportunities have to obtain approval from their manager before making decisions	3.492	.913
5	In general owner or manager believes that employees will work efficiently when they decide on their own target.	3.543	.843

Source: Survey Result, 2020

Five Likert scale question were distributed to the respondent and the mean score of the respond depicted as follows. The mean score of autonomy is 3.5618 and its standard deviation come up with 0.7282. This high mean indicated that respondents were agreeing about the question that they provided. Employees in the firm were given freedom and independence in doing their work, without depending on the owners or manager's direction. In small scale enterprises, the owner/Manager play major role in identifying and selecting the entrepreneurial opportunities than any employee in the firm. The owner/Manager of the firm believes that the best result occurs when employees, as an individuals or a team, are able to decide for themselves what business opportunities to pursue. In the firm the individuals and/or teams perusing business opportunities were not obtaining approval from their manager before making decisions. In general owner or manager believe that employees were work efficiently when they decide on their own target.

From an open ended question participants revealed that though autonomy is the power to shape the work environment in ways that allow employee to perform at his best, many employees considered it as working in isolation. Being autonomous doesn't give a person the right to work without supervision or collaborators. Employees considered it as doing whatever they like and working without a net.

A study done by Fauzul M., (2010) remarks Entrepreneurship has played an important role in economic growth, innovation, competitiveness and in poverty alleviation. His study investigated the degree of Entrepreneurial Orientation (EO) of twenty-five manufacturing Small and Medium scale Enterprises (SMEs) in Hambantota District, Sri Lanka (HDSL) and the effects of EO dimensions including pro-activeness, innovativeness, and risk taking to business performance. His findings showed about 52% of SMEs in HDSL represented moderate level of EO. Pro activeness, innovativeness, risk taking and overall EO were significantly correlated with market share growth. Results further indicated there were positive correlations among pro activeness and EO with business performance but autonomy had not positive effect on business performance.

From an open ended question participants revealed the cause why they were not interested to give autonomy to employees. Majority of respondents point out that lack of experience which increases the risk of the enterprises, potential for decreased efficiency, blurred relationships and poor decision-making or negligent behavior of employees. Further more employees were not interested share vision of the firm rather they need certain payment at the end of the moth in case if the company fails they prefer to move in too other enterprise.

### 4.3.2 Innovativeness

Table 4.2 Innovativeness Mean and Standard Deviation

No	Innovativeness	Mean	St. deva
1	Employees in my firm are given authority and responsibility to act alone if they think it is in the best interest of the business	3.239	.422
2	The firm is always creative in its methods of operation	3.674	.694
3	This firm prefers to design its own unique new methods of production rather than adopting the methods of the other firms	3.872	.773
4	In the last three years this firm has marked no new line of products or service	3.490	.813
5	The owner or manager of the firm favor their own original approach to solve problem rather than imitating methods that other firms have used for solving their problems	3.540	.741

Source: Survey Result, 2020

The mean score of innovativeness come up with 3.563 and 0.6886. This implied that participants agreed that innovation were having a strong influence on the performance of small scale in Addis Ababa. In other word employees in the firm are given authority and responsibility to act alone if they think it is in the best interest of the business. The firm is always creative in its methods of operation and it prefers to design its own unique new methods of production rather than adopting the methods of the other firms. For the last three years many of the participant's firm has marked a new line of products or service. Though most of the owner or managers of the firm favor their own original approach to solve problem, they also imitate methods that other firms have used for solving their problems.

A study done by Fred Manimala, M., & Kumar, S. (2019) asserts entrepreneurship as an important catalyst in the process of improving firm performance and growth. His study analyzes the impacts of entrepreneurial orientation (EO) dimensions (i.e., innovativeness, pro activeness, and risk taking) on the profitability growth of local Tanzania's construction firms. The findings showed that both innovativeness and risk taking dimensions have a significantly positive effect on the

growth of profitability for local Tanzania’s construction firms, whereas the reactiveness dimension has a negative significant effect.

From an open ended question majority of participants point out that innovativeness of the firm would help the businesses can initially charge higher prices for new products before competitors’ products come on the market and being innovative good for a firm's reputation. Furthermore, they point out people naturally interested in future products. Innovations in processes add value to existing products / services and businesses with lots of innovative products can take advantage of economies of scope but owner’s remark that innovation is very costly and time consuming. It may lead the businesses run out of money if employees invest too much and don't get products to market quickly enough. End up wasting resources by developing something that doesn't sell, even the existing businesses risk ruining reputation if new product is poor quality.

### 4.3.3 Risk-taking

Table 4.3 Risk-taking Mean and Standard Deviation

No	Risk-taking	Mean	St. deva
1	When confirmed with decision making situations involving uncertainty, this firm typically adopt causation ‘wait and see’ posture to minimize the probability of making costly decisions (as compared with the bold aggressive posture to maximize the probability of exploiting potential opportunities	2.231	.120
2	The top manager of this firm have a strong proclivity for high risk projects (with chance of very high rate of return), rather than low risk projects with (Normal rate of return).	2.670	.890
3	Employees in this firm are encouraged to take calculated risk with new ideas	2.873	.875

Source: Researcher Survey, 2020

The means score of risk taking come up with 2.591 and standard deviation 0.628. This small mean deviation show participants were disagreeing in the provided question. In otherworld’s with decision making situations involving uncertainty, there firm were adopt causation ‘wait and see’ posture to minimize the probability of making costly decisions (as compared with the bold aggressive posture to maximize the probability of exploiting potential opportunities. Mostly the owner of the firm has a strong proclivity for high risk projects (with chance of very high rate of

return), rather than low risk projects with (Normal rate of return) than employees in the enterprises. Employees in this firm were not encouraged to take risk.

From an open ended question participants revealed that small enterprise owners were not interested to take risks weather it is product development or market expansion. They want to operate in a certain market and they need supports from the government while they face a difficulty.

A study conducted by Wilson Nyambariga Osoro (2012) remarks entrepreneurial Orientation has significant influence on firm performance more so for small and medium firms operating under globalization and internationalization and regional integration regimes. Globalization results in expanded markets, characterized by increased number of competition, and shrinking market size. This global competition, increasing interdependence, rapid technology development, unstable environments, and many other factors exerts greater pressure on small and medium firms accustomed to operating under a domestic market set-up. Though, due to globalization there is intense competitions here and there owners were not active to take risk and develop mew way of business management and performance.

#### 4.3.4 Pro-activeness

Table 4.4 Pro-activeness Mean and Standard Deviation

No	Pro-activeness	Mean	St. deva
1	In dealing with competitors, this firm typically initiates action to which compotators then respond.	2.637	.222
2	In dealing with competitors, my firm is often the first business to introduce the first product/service.	2.879	.791
3	The owner or manager of the firm has a strong tendency to follow the leader in introducing new product or ideas.	2.471	.674

Source: Researcher Survey, 2020

The mean score of Pro-activeness in small enterprise is 2.66 and standard deviation 0.562. This means that in dealing with competitors, small enterprises were not initiates actions to which compotators then respond. In addition, small enterprises were not active in introducing the first product/service. Though the owner of the firm has a strong tendency in introducing new product or ideas but employees were not allowed to act freely.

from an open ended question respondents point out that being proactive in business help the enterprise to be prepared, considering the future today is the best way to avoid chaos tomorrow, to save time and money, trying to solve a problem after the fact is almost always more wasteful of company resources, better internal understanding and to develop road mapping the future but managers were not proactive due to fear of the reaction of other small enterprises. They prefer to operate in collation and certain business environment

Fay D (2016) explains the benefit of proactive work behaviors for performance-related outcomes has been well established. However, his approach to studying proactivity has not yet acknowledged its potential implications for the actor's well-being. Drawing on the fact that resources at work are limited and that the workplace is a social system characterized by interdependencies, He proposed that daily proactivity could have a negative effect on daily well-being. Furthermore, he proposed that the effect should be mediated by work overload and negative affect. During several daily measurement occasions, participants reported proactivity, work overload, negative affect, and fatigue. There was no support for a mediating effect of work overload and negative affect. Implications for theory-building on the proactivity-well-being link are discussed. He concluded that in most modern workplaces it is not enough for employees to react and adapt to changes in their environment; rather, they need to plan ahead and prepare for potential threats and dangers in the future by taking the initiative today. Research has shown that in general, engaging in proactive behavior comes with beneficial results. But sometimes employee proactivity may also lead to negative (side) effects, such as increased stress. Employees therefore need to consider the trade-offs between rewards and potential costs of proactive behavior at work.

### 4.3.5 Competitive Aggressiveness

Table 4.5 Competitive Aggressiveness Mean and Standard Deviation

No	Competitive Aggressiveness	Mean	St. deva
1	This firm avoids a confrontation with the competitors and let them act	2.131	1.220
2	In general, our business takes a bold and aggressive approach when competing.	2.570	.995
3	Our business compute intensely in the future industry	2.372	.773
	We try to undo and out maneuver the competition at the best we can	1.90	.412

Source: Researcher Survey, 2020

The mean score of Competitive Aggressiveness 2.24 and its standard deviations is 0.85. This low mean score showed that respondents were disagreed about the practice of competitive aggressiveness in small enterprise. Most of their firm avoids a confrontation with the competitors and let them act. In general, there business takes were not taking bold and aggressive approach when competing. Their businesses were not computes intensely in the industry. They are afraid of the reaction of others.

A study done by Abdullahi, (2019) asserts one of the key challenges confronting construction organizations especially small and medium size firms is the issue of poor performance and survival due to the uncertain environment of the construction industry. Firms must therefore, respond by adopting suitable business strategies that ensure their survival and success in the industry. Competitive aggressiveness is regarded as one of the appropriate business orientations for firms in sectors like construction. The finding shows a significant level of adoption of competitive aggressiveness orientation among the studied samples. A positive and significant relationship was also established between competitive aggressiveness and financial performance of the CSMEs in the study. It was concluded from the study that competitive aggressive impacts positively on the financial performance of Nigerian CSMEs.



## 4.4 Inferential Analysis

Inferential analysis is type of analysis that used a random sample of data taken from a population to make inferences about the population. Inferential statistics are valuable when examination of each member of an entire population is not convenient or possible (Kothari, 2004).

### 4.4.1 Diagnostics of Assumptions in Regression

Before conducting a regression analysis, the basic assumptions concerning the original data must be made. This is a mandatory prerequisite in explaining the relationships between dependent and explanatory variables. Five major assumptions have to be checked and proved to be met reasonably well. In this study these important least square assumptions were checked and explained as below.

### 4.4.2 Testing the Skewness and Kurtosis of the Data

Skewness is a measure of symmetry, or more precisely, the lack of symmetry. A distribution, or data set, is symmetric if it looks the same to the left and right of the center point. Kurtosis is a measure of whether the data are heavy-tailed or light-tailed relative to a normal distribution. That is, data sets with high kurtosis tend to have heavy tails, or outliers. Data sets with low kurtosis tend to have light tails, or lack of outliers. A uniform distribution would be the extreme case (Kothari, 2004)

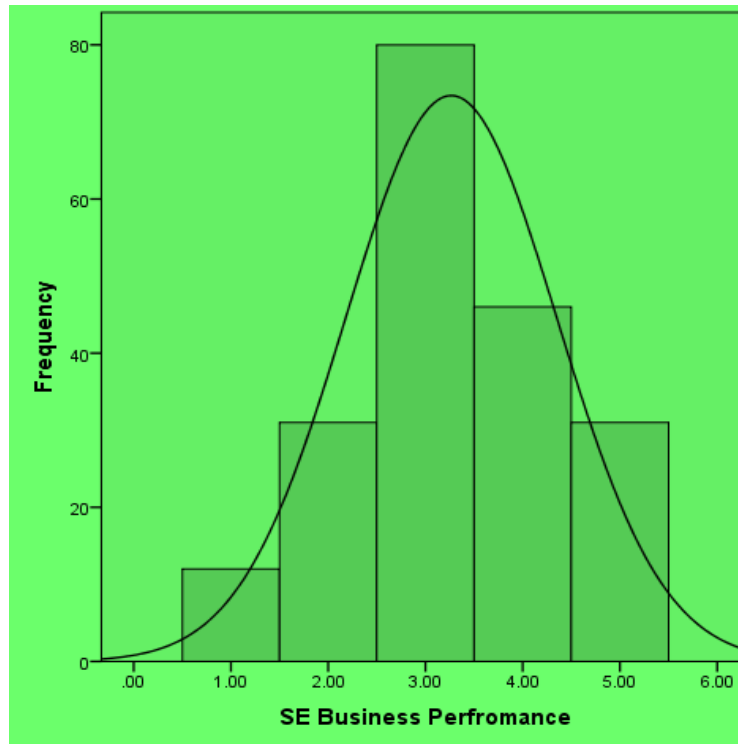
Table 4.6 Skewness and Kurtosis

	Innovativeness	Risk-Taking	Pro-Activeness	Competitive Aggressiveness	Autonomy
Skewness	.056	.210	-.151	.768	-.458
Std. Error of Skewness	.192	.192	.192	.192	.192
Kurtosis	.460	-.576	.262	-.516	-.425
Std. Error of Kurtosis	.381	.381	.381	.381	.381

Source: Researcher Survey, 2020

The values within the range of +1.96 and -1.96 are the said to be acceptable. Beyond these limits can be called skewed data (Hair, 2010) and Bryne (2010) argued that data is considered to be normal if Skewness is between -2 to +2 and Kurtosis is between -7 to +7. From rule of the thumb the researcher's data is normally distributed.

Figure 4.5 Data Distribution of independent variables -Histogram



Source: Researcher Survey, 2020

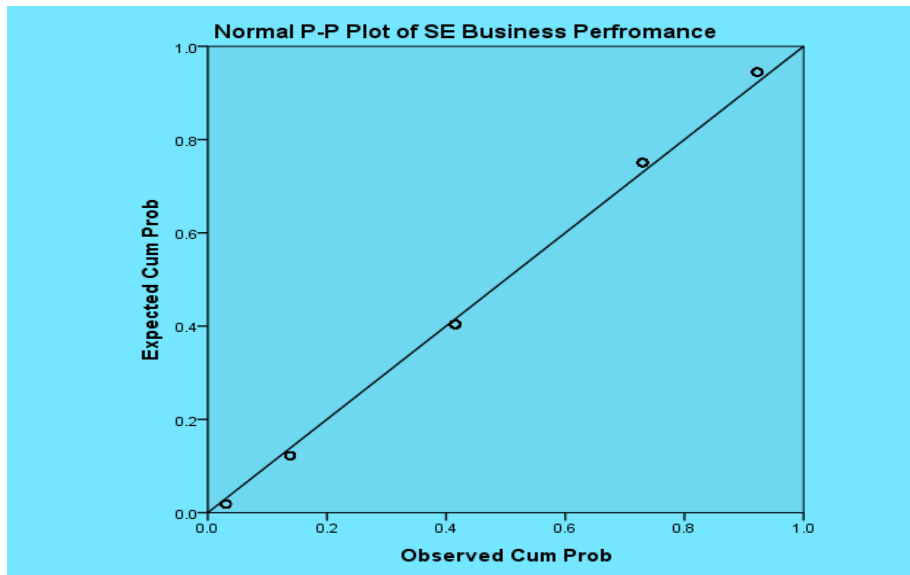
#### 4.4.3 Normality

Normality test is a statistical process used to determine if a sample or any group of data fits a standard normal distribution. A normality test can be performed mathematically or graphically.

Normality tests are used to determine if a data set is well-modeled by a normal distribution and to compute how likely it is for a random variable underlying the data set to be normally distributed. The tests are a form of model selection, and can be interpreted several ways, depending on one's interpretations of probability:

Multiple regressions assume that variables have normal distributions (Darlington, 1968). This implies that errors are normally distributed, and that a plot of the values of the residuals will approximate a normal curve (Keith, 2006). This assumption can be tested by looking at the P-P plot for the model together with above histogram of the standardized residuals. The closer the dots lie to the diagonal line, the closer to normal the residuals are distributed.

Fig 4.6 Normality Test



Source: Researcher Survey, 2020

In the above figure data distribution looks normal and in the P-P plots also the dots are reasonably closer to the normal line. The combination of both inspections support that the residuals are normally distributed.

#### 4.4.4 Multicollinearity Test

Multicollinearity means a state of very high inter-correlation or inter-associations among the independent variables. It is therefore a type of disturbance in the data, and if present in the data the statistical inferences made about the data may not be reliable.

Multicollinearity generally occurs when there are high correlations between two or more predictor variables. In other words, one predictor variable can be used to predict the other. This creates redundant information (Kothari, 2004)

Strong relationship between explanatory variables is a problem of multicollinearity and not acceptable for ordinary list square regression analyses.

Table 4.7 Multicollinearity Test

Coefficients <sup>a</sup>			
Model		Collinearity Statistics	
		Tolerance	VIF
1	autonomy	.871	.043
	innovativeness	.872	.906
	risk-taking	.853	.946
	proactive	.622	.815
	competitive aggressiveness	.722	.708

a. Dependent Variable: SE Business Performance

Source: Researcher Survey, 2020

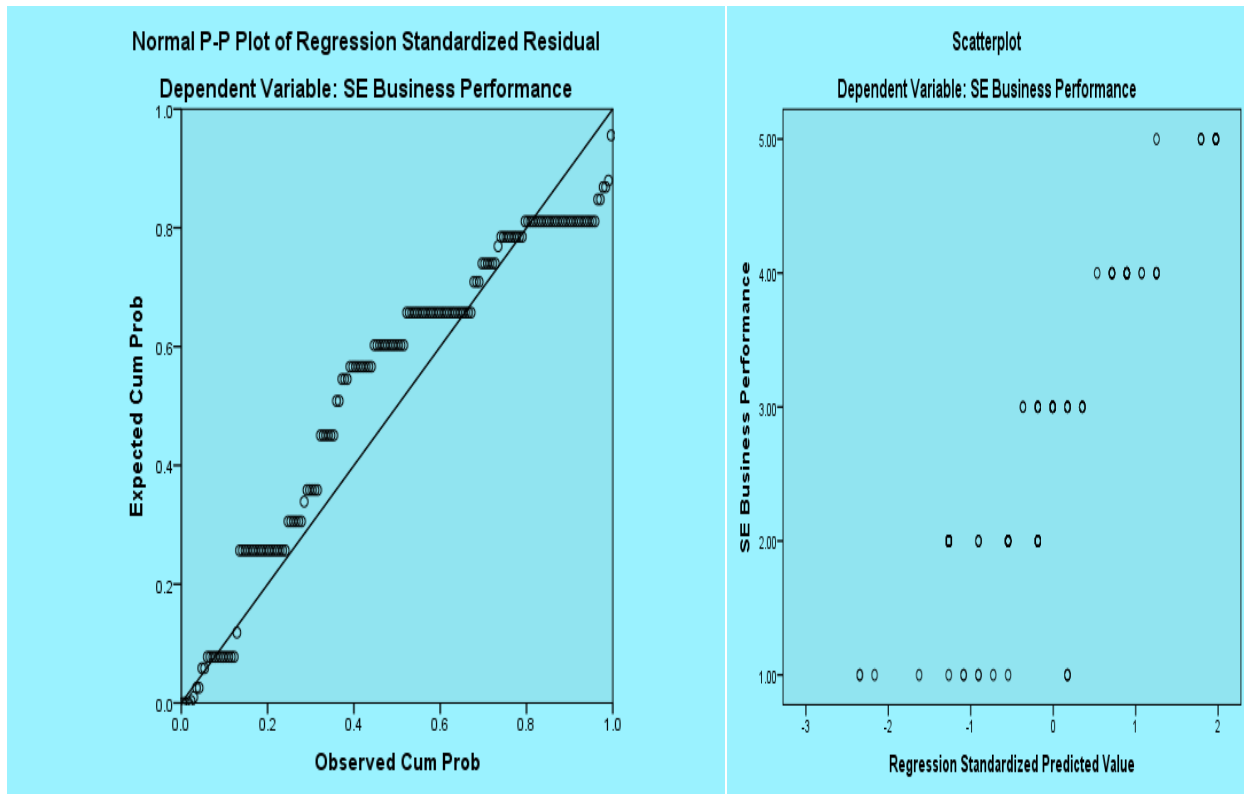
Variance-inflation factor (VIF) has also been checked and values are found smaller, which supports that multicollinearity is not a problem. In this study all VIF were less than 1 got acceptances as per (Hair, 2010). Moreover, tolerance statistics in regression analysis helps to detect co-linearity problem. Tolerance value runs from 0 to 1 and values closer to 1 indicates no multicollinearity problem (Keith, 2006). In this study all the tolerances are above 0.8 and, therefore, the amount of variation in that construct is not explained by other predictors. All the two tests indicated that there is no multicollinearity problem.

#### 4.4.5 Homoscedasticity Test

Homoscedasticity means that the variance around the regression line is the same for all values of the predictor variable (X). The plot shows a violation of this assumption. For the lower values on the X-axis, the points are all very near the regression line. For the higher values on the X-axis, there is much more variability around the regression line

This assumption requires even distribution of residual terms or homogeneity of error terms throughout the data. Homoscedasticity can be checked by visual examination of a plot of the standardized residuals by the regression standardized predicted value (Osborn & Waters, 2002). If the error terms are distributed randomly with no certain pattern, then the problem is not detrimental for analyses. The following Figures below shows that the standardized residuals in this research are distributed evenly indicating heteroscedasticity are not a serious problem for this data.

Figure 4.7 Data Distribution of dependent variable



Source: Researcher Survey, 2020

#### 4.4.6 Autocorrelation Test

Autocorrelation is a mathematical representation of the degree of similarity between a given time series and a lagged version of itself over successive time intervals. It is the same as calculating the correlation between two different time series, except autocorrelation uses the same time series twice: once in its original form and once lagged one or more time periods (Kothari, 2004)

Table 4.8 Autocorrelation Test

Model Summary	
Model	Durbin-Watson
1	1.679a
a. Predictors: autonomy, involvement, innovativeness, risk-taking, pro-activeness and competitive aggressiveness	
b. Dependent Variable: SE Business Performance	

Source: Researcher Survey, 2020

Autocorrelation or independence of errors refers to the assumption that errors are independent of one another, implying that subjects are responding independently (Stevens, 2009). Durbin-Watson statistic can be used to test the assumption that our residuals are independent (or uncorrelated). This statistic can vary from 0 to 4. For this assumption to be met, the DW value needs to be close to 2. Values below 1 and above 3 are problematic and causes for concern.

#### 4.5 Correlation Analysis

Correlation analysis was applied to test the “interdependency” of the variables. In this section, the direction and degree of the strength of the relationship among the variables were determined. The Pearson Correlation Coefficient was computed to determine the relationships between autonomy, innovativeness, risk-taking, pro-activeness and competitive aggressiveness and SE Business Performance.

Correlation analysis is useful way of exploiting relation (association) among variables. The value of the coefficient (r) ranges from -1 up to +1. The value of coefficient of correlation (r) indicates both the strength and direction of the relationship. If  $r = -1$  there is perfectly negative correlation between the variable. If  $r = 0$  there is no relationship between the variable and if  $r = +1$  there is perfectly positive relationship between the variables. For values of r between + and 0 or between 0 and -1, different scholars have proposed different interpretation with slight difference.

For this study decision rule given by (Kothari, 2004) was used to describe the strength of association among the variables as follows.

Table 4.9 Correlation Coefficient

No	Measure of Association	Descriptive Adjectives
1	>0.00 to 0.20; <-0.00 to -0.20	Very weak or very low
2	>0.20 to 0.40; <-0.20 to -0.40	Weak or low
3	>0.40 to 0.60; <-0.40 to -0.60	Moderate
4	>0.60 to 0.80; <-0.60 to -0.80	Strong or High
5	>0.80 to 1.0; <-0.80 to -1.0	Very high or Very Strong

Source: Kothari (2004)

Table 4.10 Correlation result

		Autonomy	Innovativeness	Risk-Taking	Proactive	Competitive Aggressiveness	SE Business Performance
autonomy	Pearson Correlation	1					
	Sig. (2-tailed)						
innovativeness	Pearson Correlation	.447**	1				
	Sig. (2-tailed)	.000					
risk-taking	Pearson Correlation	.471**	.687**	1			
	Sig. (2-tailed)	.000	.000				
proactive	Pearson Correlation	.320**	.742**	.792**	1		
	Sig. (2-tailed)	.000	.000	.000			
competitive aggressiveness	Pearson Correlation	.437**	.579**	.869**	.744**	1	
	Sig. (2-tailed)	.000	.000	.000	.000		
SE Business Performance	Pearson Correlation	.671**	.687**	.431**	.392**	.469**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	

Source: Researcher Survey, 2020

The above table showed the correlation between dependent variable SE Business Performance and independent variables autonomy, innovativeness, risk-taking, pro-activeness and competitive aggressiveness.

As clearly indicated, all independent variables have positive correlate with the dependent variable, SE Business Performance with significant level of 0.01. The magnitude of correlation between independent variables innovativeness and the dependent variable SE Business Performance come up with  $r=.687^{**}$ .

This shows the variable strongly or highly relate with the dependent variable. In addition to this, autonomy has a strong correlation with SE Business Performance ( $r=.671^{**}$ ). Furthermore, risk-taking ( $r=.431^{**}$ ) pro-activeness( $r=.392^{**}$ ) and competitive aggressiveness( $r=.469^{**}$ ). Though all independent variables have a positive significant relationship with SE Business Performance, autonomy and innovativeness have a strong relationship with SE Business performance while the remaining (risk-taking, pro-activeness, competitive aggressiveness) has moderate relationship with SE business performance.

To sum up the correlation result showed the existence of positive direction and strong magnitude. The more the enterprises work on in the independent variable, there is an increment in here business performance.

#### **4.6 Regression Analysis Results**

In this section the researcher used multiple regression analysis to absorb the relationship between the dependent variable and independent variables. Further, regression analysis helps the researcher to understand how typical value of the dependent variable changes when any one of the independent variable is varied, while other independent variables are held fixed.



Table 4.11 Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.976a	.952	.951	.24111
a. Predictors: (Constant), competitive aggressiveness, autonomy, innovativeness, proactive, risk-taking, involvement				

Source: Researcher Survey, 2020

The regression model considers SE business performance as dependent variable and competitive aggressiveness, autonomy, innovativeness, proactive, risk-taking, involvement as independent variables. The linear combination of those factors is significantly related to SE business performance (adjusted  $R^2=.952$ ). This means that 95.1 percent of the variance in the dependent variable SE business performance can be explained by the independent variables competitive aggressiveness, autonomy, innovativeness, proactive and risk-taking.

Table 4.12 ANOVAa

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	223.677	5	44.735	769.536	.000 <sup>b</sup>
	Residual	11.278	194	.058		
	Total	234.955	199			
a. Dependent Variable: SE Business Performance						
b. Predictors: (Constant), competitive aggressiveness, autonomy, innovativeness, proactive, risk-taking						

Source: Researcher Survey, 2020

The ANOVA (Analysis of Variance) table provides the result of test of significance for R and  $R^2$ . Accordingly, it shows the F value of 769.536 is significant at 0.01 (P value that a correspondent to F statistic is significant). Thus, which states the independent variables competitive aggressiveness, autonomy, innovativeness, proactive and risk-taking significantly explain the variance in SE business Performance

Table 4.13 Regression Coefficients

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.103	.058		-1.785	.076
	Autonomy	.289	.038	.289	7.635	.000
	Innovativeness	.367	.035	.363	10.367	.000
	risk-taking	.188	.033	.184	5.611	.000
	Pro-activeness	.116	.040	.114	2.906	.004
	competitive aggressiveness	.091	.029	.095	3.109	.002

a. Dependent Variable: SE Business Performance

Source: Researcher Survey, 2020

Under Beta coefficient table, standardized Beta coefficient and unstandardized beta coefficient values are used to predict the relative importance of each independent variable and to formulate the linear regression equation respectively.

Based on the standardized beta coefficient values, it can be shown that competitive aggressiveness, autonomy, innovativeness, proactive and risk-taking found to be significant predictors of SE Business Performance.

The linear multiple regression formula for the dependent variable, organizational performance and independent variables competitive aggressiveness, autonomy, innovativeness, proactive, risk-taking and involvement took the form of:

EO= Entrepreneurial orientation (dimension of independent Variable)

$$PSSE = 2.576 + .289AU + .363IN + .184RT + .114PA + .095CA + \varepsilon \dots\dots 3$$

The implication of the above formula showed that

For every unit increase in the value of autonomy in Small Business, business performance will increase by 28.9% and for every unit increase in the value of innovation in Small Business, business performance will increase by 36.3%. In addition to this, for every unit increase in the value of pro-activeness in Small Business, business performance will increase by 11.4 %. For every unit increase in the value of Risk taking in Small Business, business performance will increase by 18.4%. Lastly for every unit increase in the value of competitive aggressiveness in Small Business, business performance will increase by 9.5%.

#### **4.7 Hypothesis Testing**

❖ ***H1: Autonomy has positive significant effect in the performance of SEs in Addis Ababa.***

There is positive and significant relationship between Autonomy and performance of SEs. The  $P < 0.05$  and the Value of Beta value .289 which represented the 28.9% variation in SE performance. Therefore, H1 is supported. This implied that the more small enterprises work on autonomy or give a freedom to their employees to do their work in reasonably autonomous would increase the performance of the small and medium enterprises.

❖ ***H2: Innovativeness has positive significant effect in the performance of SEs in Addis Ababa.***

There is positive and significant relationship between Innovativeness and performance of SEs. The  $P < 0.05$  and the Value of Beta value .363 which represented the 36.3 % variation in SE performance. Therefore, H2 is supported. This implied that the more the owner, manger and supervisor of small and medium enterprises tried or invest in the practice of innovativeness their enterprise's performance will increase.

❖ ***H3: Risk taking behavior has positive insignificant effect in the performance of SEs in Addis Ababa.***

There is positive and but insignificant relationship between Risk taking and performance of SEs. The  $P < 0.05$  and the Value of Beta value .184 which represented the 18.4% variation in SE performance. Therefore, H3 is rejected. This implied that when enterprises get involved in taking risk their performance will moderately increase.

***H4: Pro-activeness has positive insignificant effect in the performance of SEs in Addis Ababa***

There is positive and but insignificant relationship between Pro-activeness and performance of SEs. The  $P < 0.05$  and the Value of Beta value .114 which represented the 11.4% variation in SE performance. Therefore, H4 is rejected. This implies that enterprises should take due consideration before they take an action against other enterprises or competitors in the market.

***❖ H5: Competitive aggressiveness has positive insignificant effect in the performance of SEs in Addis Ababa.***

There is positive and but insignificant relationship between Competitive aggressiveness and performance of SEs. The  $P < 0.05$  and the Value of Beta value .095 which represented the 9.5 % variation in SE performance. Therefore, H5 is rejected. This implied that small and medium enterprises should give due consideration to competitive aggressiveness because it gives in significant effect on the performance of their business.

## **4.8 Discuss of the Result**

Results of the study prove that firstly, autonomy entrepreneurial orientation has significant effect on business performance; second, innovativeness entrepreneurial orientation has insignificant effect on business performance but others variables such as competitive aggressiveness, pro-activeness and risk-taking entrepreneurial orientation has not significant effect on business performance.

Findings of the present study do not support previous studies developed by Wiklund (1999) with findings that entrepreneurial orientation is defined as an entrepreneurial process whereby a company's proactive attitude, innovation and courage in risk-taking can improve business performance. Furthermore, it has been also said that entrepreneurial orientation often related to organizational performance, the result of the study is also based on assumption that business organizations with entrepreneurial attitude orientations have an advantage as first mover and tendency in taking advantage of an emerging market opportunity.

Findings of the study also do not support research conducted by Madsen (2007) with finding that entrepreneurial orientation has a positive effect on long-term relationship of organization and

business performance improvement as measured by marketing performance (sales growth) and financial performance (profitability).

Study conducted by Chandrakumara et al (2011) found different findings that a positive effect of entrepreneurial orientation is found at the growth rate of business which is characterized by the increase of sales revenue.

## **Chapter Five**

### **5. Major finding summary, Conclusion and Recommendation**

#### **5.1 Major finding summary**

The main emphasis of the research was to investigate the effect of entrepreneurial orientation on business performance in case of small enterprises (SES) in Addis Ababa. The study collected a data based on the questionnaire. The questionnaire was distributed to 200 respondents of which 180 responses were collected. It implies that the response rate was 90%. For the data analysis the statistical software version 20.0 was used and demography characteristics of respondents were analyzed. Descriptive statistics includes frequencies, percentages, means, and standard deviations

and from inferential analysis the diagnosis of data test including correlation, regression and hypothesis testing were conducted.

Regarding demographic characteristics of respondent's gathered for these studies were gender, age and educational level, Job Position in their Small Scale Enterprise and how old is the establishment of small scale enterprise. Out of 180 respondents 118(66%) were male while 62(34%) were females. Regarding the age group of respondents, the larger number of small scale business owners, managers and supervisors were between the ages of 31-35 and the Second largest age groups which constitute 34 % of the respondents are 36-40 years of age while educational background majority or 114 of them were certificate levels and the second largest level were college diploma holders the remaining 10 respondents were first degree holder and above it.

In descriptive analysis, the result of the central tendency showed that the mean score of autonomy is (mean=3.5618, SD=0.7282), innovativeness (mean=3.563, SD=0.6886), risk taking (mean=2.591 and, SD=0.628), Pro-activeness in small enterprise (mean=2.66 SD=0.562) and Competitive Aggressiveness (mean=2.24 SD=0.85). From the central tendency autonomy and innovativeness were perceived as a strong factor that affect the performance of small enterprise while the remaining (pro-activeness, competitive aggressiveness and risk taking) were perceived as below average level.

Results from Pearson correlation coefficient interpretation of r value were used to discuss the relationship between dependent variable SE Business Performance and independent variables autonomy, innovativeness, risk-taking, pro-activeness and competitive aggressiveness. There was strong significant correlation existed between SE Business Performance and innovativeness ( $r=.687^{**}$ ) and autonomy ( $r=.671^{**}$ ) respectively. Other variables such as risk-taking( $r=.431^{**}$ ) pro-activeness( $r=.392^{**}$ ) and competitive aggressiveness( $r=.469^{**}$ ) has Moderate correlation. Though all independent variables have a positive relationship with SE Business Performance, autonomy and innovativeness have a strong relationship with SE Business performance while the remaining (risk-taking, pro-activeness, competitive aggressiveness) has positive and moderate relationship with SE business performance.

In case of regression analysis, the regression model considers SE business performance as dependent variable and competitive aggressiveness, autonomy, innovativeness, proactive, risk-

taking, involvement as independent variables. The linear combination of those factors is significantly related to SE business performance (adjusted  $R^2=.951$ ) which means that 95.1 percent of the variance in the dependent variable SE business performance can be explained by the independent variables competitive aggressiveness, autonomy, innovativeness, proactive and risk-taking and the ANOVA (Analysis of Variance) result showed the F value of 769.536 is significant at 0.01 (P value that a correspondent to F statistic is significant) which mean that the independent variables, competitive aggressiveness, autonomy, innovativeness, proactive and risk-taking significantly explain the variance in SE business performance in Addis Ababa. Regarding the hypothesis hypotheses one and two were accepted while the remaining is rejected.

From open ended question participants revealed the external and internal challenges that have adverse effect on their entrepreneurial activity. Frequently mentioned challenges were lack of access to capital, poor infrastructure, lack of experience, lack of working premises and lack of market linkage or access to market

## **5.2 Conclusion**

In present times, finding a source of a sustainable competitive advantage is the main job for business managers, and entrepreneurs. The reason is that a sustainable competitive advantage will guarantee any organization a better performance, which is, in the end, the very reason for the existence of any business. Unfortunately, the existence of a competitive advantage relies on a series of capabilities of the organization, as well over a series of external factors that shape the strategy of any business. Due to this, there has been a lot of research aimed to find the most relevant variables that affect business performance. In an age where the technology, information, and markets are closer and more accessible to everyone, EO is taking relevance as a strategic capability and it has a foundation in strategy.

## **5.3 Recommendation**

Based on the conclusion above the following main recommendations are forwarded:

- The government should solve the problems of lack of access to capital, poor infrastructure, lack of experience, lack of working premises and lack of market linkage or access to market because these factors have an impact on the entrepreneurial activity of the small enterprise.

- Based on the educational background of the respondents, most of the managers and owners are certificate and diploma level. Although educational achievement might not be a direct predictor of success in business, it could have its own impact on how they understand their business environment, the nature of their industry they are operating and mainly the financial processes and realities in the business world. It is therefore recommended that various technical trainings in their business area should be delivered as a support. Besides, other business and financial trainings are also required to keep them competitive in their industry. In addition, small enterprises are doing their business in resources tight situation; it is recommended that they give higher emphasis in exploiting their entrepreneurial skills as an alternative strategy for their competitive advantage and better performance.
- Government and other supporting partners for small enterprises should consider options that help build the entrepreneurial behavior/skills of owners and managers so that even in limited resources availability it could be possible to improve their accomplishment. This could be done through trainings or other initiatives that could call participation of small enterprises in entrepreneurial activities and through motivating entrepreneurial activities that are exhibited by small enterprises. Other supports given, mainly by government, to these small enterprises should consider entrepreneurial orientation to be the pivot for their action.
- Lastly since most enterprise leaders mentioned (internal and external) challenges were mention by the enterprise such as infrastructures, working premise problem and marketing resources allocation could improve the relationship between entrepreneurial orientation and performance but only when there is marketing capability with in the enterprise.



## 5.4 Future Research

- Further researches are required involving interaction of EO with several social, economic, political, environmental factors and assess its impact on performance. In addition to interaction effect there could be different forms of indirect effect of EO on performance through other bridging variables. These issues could be addressed in future researches mainly in Ethiopian context.
- There might be a certain degree of variation between different industry types. To get the detail and complete picture of the EO-performance relationship, it is advisable to make split research by industry type.

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## **Appendixes**

JIMMA UNIVERSITY

FACULTY OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ADMINISTRATION

ABH Compass Addis Ababa

Dear respondents:

The main objective of this questionnaire is to gather your opinion regarding the Effect of Entrepreneurial orientation (EO) on business performance in the case of Small enterprises (SEs) in Addis Ababa. The data and opinion gathered will be used for partial fulfillment of the requirement for Master's Degree in Business Administration from Jimma University. Your faithful and quick response will make the research fruitful. The information you provide will be kept confidential. Thank you in advance for your collaboration. If you have problems in completing this form, please do not hesitate to contact.

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PART I GENERAL QUESTIONS: PLEASE CIRCLE THE LETTER OF YOUR CHOICE.

- 1: Gender: A. Male B. Female
- 2: Age: A. Below 20 years B.20-25 years C.26-30 years  
D.31-35 years E.36- 40 years F. above 40 years
- 3: Educational Qualification:  
A. Certificate B. College diploma  
C. First Degree D. Second Degree and above
- 4: Job Position in Your Small Scale Enterprise  
A. Owner of the enterprise B. Manager of the enterprise
- 5: How old is the establishment your small scale enterprise?  
1) Under 3 years 2) 3-6 years  
3) 7-10years 4) over 10 years

PART TWO: Questions That Measure the Practice of Entrepreneurial Dimension (EO) In Small Scale Enterprise:

PLEASE PUT 'X' MARK ON THE LEVEL OF YOUR AGREEMENT: WHERE

SDA=STRONGLY DISAGREE, DA=DISAGREE, N=NEUTRAL, A=AGREE,  
SA=STRONGLY AGREE



NO	ITMES OF QUESTIONES	SDA	DA	N	A	SA
	<b>Autonomy</b>					
1	Employees in my firm are given freedom and independence in doing their work, without depending on the owners or managers direction					
2	In this firm, the owner/Manager (rather than employee initiative play major role in identifying and selecting the entrepreneurial opportunities this firm pursues					
3	The owner/Manager of this firm believes that the best result occurs when employees, as an individuals or a team, are able to decide for themselves what business opportunities to pursue.					
4	In this firm the individuals and/or teams perusing business opportunities have to obtain approval from their manager before making decisions					
5	In general owner or manager believes that employees will work efficiently when they decide on their own target.					
	<b>Innovativeness</b>					
1	Employees in my firm are given authority and responsibility to act alone if they think it is in the best interest of the business					
2	The firm is always creative in its methods of operation					
3	This firm prefers to design its own unique new methods of production rather than adopting the methods of the other firms					
4	In the last three years this firm has marked no new line of products or service					

5	The owner or manager of the firm favor their own original approach to solve problem rather than imitating methods that other firms have used for solving their problems					
<b>Risk-taking</b>						
1	When confirmed with decision making situations involving uncertainty, this firm typically adopt causation ‘wait and see’ posture to minimize the probability of making costly decisions (as compared with the bold aggressive posture to maximize the probability of exploiting potential opportunities					
2	The top manager of this firm have a strong proclivity for high risk projects (with chance of very high rate of return), rather than low risk projects with (Normal rate of return).					
3	Employees in this firm are encouraged to take calculated risk with new ideas					
<b>Pro-activeness</b>						
1	In dealing with competitors, this firm typically initiates action to which compotators then respond					
2	In dealing with competitors, my firm is often the first business to introduce the first product/service					
3	The owner or manager of the firm has a strong tendency to ‘follow the leader’ in introducing new product or ideas					
<b>Competitive Aggressiveness</b>						
1	This firm avoids a confrontation with the competitors and let them act					
2	In general, our business takes a bold and aggressive approach when competing.					
3	Our business compute intensely in the future industry					
4	We try to undo and out –maneuver the competition at the best we can					
<b>SE Business Performance</b>						

1	Our business has good performance					
2	Our business has good market to be profitable					
3	Our business is expanding from year to year					
4	Our business is strong in the industry					

Part Three: Open Ended Question

1. How do you evaluate the autonomy of your employees in your enterprise?  
Please explain it weather it helps the business or not?

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2. How do you evaluate the innovative capacity of your employees in your enterprise?

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3. Are you risk taker in your business? How

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4. How do you compete with other small enterprise? Are reactive or proactive in giving action? How

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APPENDIX 2

JIMMA UNIVERSITY

FACULTY OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ADMINISTRATION

**Checklist for key informant interview for CGAASMMICD Corporation  
Cluster Experts or Officials**

Branch \_\_\_\_\_

Key informant interview Identification number \_\_\_\_\_

The Researcher signature \_\_\_\_\_

Name of supervisor \_\_\_\_\_ sign \_\_\_\_\_

Date of Interview \_\_\_\_\_

Interview started at \_\_\_\_: \_\_\_\_hrs. Interview finished at \_\_\_\_: \_\_\_\_hrs. (fill at the end)

## Questions

1. What are the main supports that the corporation provides to small enterprises?
2. What are the challenges that small enterprise faced in operation their business?
3. How do you see the entrepreneurial activity of small enterprise that is administered by the corporation?