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Entrepreneurial Orientation and Performance of Small Business in Vryburg Region North West Province South Africa

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Abstract: Small businesses play a significant role in job creation, economic growth and development, innovation, competitiveness and poverty alleviation that eventually improve business performance. The purpose of this study was to assess the association between Entrepreneurial orientation (EO) (innovativeness, risk taking, proactiveness and autonomy) and performance of small business in Vryburg area North West Province South Africa(SA). This quantitative study utilised questionnaire for data collection in a survey. The population were small business owners/managers in North West Province South Africa. Simple random sampling method was utilised to obtain participants for the study. The study utilised descriptive and inferential statistics. The result shows that only three attributes (innovativeness, risk taking and proactiveness) influence business performance while no association was found between autonomy and business performance. Additionally, positive relationship exists between the overall EO and the performance of small business. Empirically, the study contributes to the literature on EO and advance recommendations to improve the EO of small business in South Africa. The study recommends that policy makers, owners and managers of small business strategize on enterprise development and better business performance of small business in Vryburg area North West Province South Africa.

Keywords: Entrepreneurial orientation, Small business, Business Performance, Vryburg, South Africa, Socioeconomic development.

INTRODUCTION

Entrepreneurship is generally seen as the backbone of any economy – developed and emerging. Therefore, it can be argued that, given the acclaim of improving society's socioeconomic status, it is expected that the uptake of entrepreneurship results in increased employment, better standards of living and alleviation of poverty. In fact, examples abound in countries such as the United States of America, the United Kingdom and Japan where the small business sector is regarded as the engine of economic growth and job creation. This is seen to be the case because of the high levels of entrepreneurial orientation (EO) among the people in these countries leading Hznafi (2012) to point out that small businesses with advanced level of EO often perform better than small businesses with lesser level of EO. This being the case, entrepreneurship is expected to result in considerable socioeconomic development and growth in South Africa. The anticipation therefore is that small businesses will spearhead economic advancement of the Vryburg area

North West Province South Africa where this study was carried out.

There is an increasing interest in the association between EO and business performance. This is so for a handful number of reasons. Firstly, studies about the association between EO and business performance have revealed mixed results and in some cases inconclusive (Moreno and Casillas 2008; Paauwe 2009; Fairoz, Hirobumi and Tanaka (2010); Frank, Kessler and Fink 2010). For example, Chung-Wen (2008), in a study on leadership style, EO and business effectiveness of small business in Taiwan, found a significant positive association between proactiveness, innovation and business performance. Bahula (2012), Dada and Watson (2013) as well as Matchaba-Hove, Farrington and Sharp (2015) found a favourable link between EO and small business. Fairoz *et al.* (2010) studied the association between EO and business performance of SMEs in Hambantota District, Sri Lanka and found the degree of EO to be moderate in the majority of the SMEs in Sri Lanka. In addition, the study established a significant positive association between proactiveness, innovativeness, risk taking and overall EO with market growth. In contrast, Fairoz *et al.* (2010) found no significant nexus between risk taking, innovativeness, proactiveness and overall EO with

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profit, employment growth, sales and owner's satisfaction. Similarly, in South Korea, Lee and Lim (2009) as well as Moreno and Casillas (2008) found no significant link between EO and business performance. Furthermore, the association between EO and business performance is debatable. These contradictory views and the paucity of studies in developing countries necessitate the investigation of the link between EO and the small business performance in South Africa. In fact, a recent study by Haider, Asad and Fatima (2017) pointed out that there is limited study on the association between EO and business performance in developing countries. Moreover, drawing from the seminal work of Roskos and Klandt (2005), it is argued that the different levels of performance of small businesses could be explained in terms of their varying levels of entrepreneurial orientation. Giving the foregoing, the objectives of the research are: (1) to establish the level of EO among small businesses, (2) to investigate the nexus between innovativeness and performance of small business, (3) to examine the link between risk taking and performance of small business, (4) to assess the association between autonomy and performance of small business, (5) to measure the association between proactiveness and performance of small business and (6) to assess the association between overall EO and performance of small business. A major contribution of this paper is that it will add to the body of knowledge on EO in South Africa as well as advance recommendations to improve the EO of small business. The paper is structured as follows: the next section reviews the literature in which case we explore the definition of EO, the theory of EO, the relationship between EO and business performance of small businesses. Afterwards, the method and results are explained. The paper concludes with the implications of the findings, study limitations and directions for future research.

LITERATURE REVIEW

Definition of Entrepreneurial Orientation

Miller (2011) define EO as the strategic dimension for business performance. Rauch *et al.* (2009) view EO as entrepreneurial strategy decision processes used by top managers in creating the vision statement, mission statement and competitive advantage. According to Avlonitis and Salavou (2007), EO is an organisational concept that shows managerial capability through which businesses implement proactive and aggressive initiatives to gain competitive advantage. The extended

definition of EO is affirmed by other researchers. Awang *et al.* (2009) as well as Lee and Lim (2009) define EO as firm's willingness to take risks, adopt innovative practices in producing goods or services, and proactively serving customers ahead of their competitors. EO also involves a disposition towards a desire to be in control of own business while adopting aggressive competitive posture towards rivals in the wake of the turbulent and hostile business environment.

Haider *et al.* (2017) point out that EO is represented by three dimensions. These are (1) innovativeness, (2) proactiveness and (3) risk taking. Similarly, Simon, Stachel and Covin (2011) argue that EO is measured using three attributes innovativeness, risk taking and proactiveness. Businesses that are entrepreneurially oriented are innovative, proactive and good in risk taking (Boso, Story and Cadogan 2013). Additionally, Fatoki and Oni (2014) measured the EO of immigrant entrepreneurs in South Africa using three elements namely innovativeness, risk taking and proactiveness. EO can also be measured using four attributes namely (1) risk taking, (2) autonomy, (3) innovativeness and (4) competitive aggressiveness (Lee and Lim 2009). Gautam (2016) as well as Hossain and Deewan's (2012) position is that that EO is represented by five dimensions namely (1) innovativeness, (2) risk taking, (3) autonomy, (4) proactiveness and (5) competitive aggressiveness. Essentially, EO implies a firm's behaviour characterised by innovativeness, risk-taking, proactiveness, competitive aggressiveness and autonomy seeking. For the purpose of this study, EO is measured using four variables innovativeness, risk taking, proactiveness and autonomy. However, competitive aggressiveness dimension is excluded from this study because it was assumed to be measured under proactiveness.

Definition of a Small Business

To put the study in context, it is necessary to provide a broad description of the small business environment. Although the term small business has gained global usage, it has different national, regional and even industry connotations. As a result, it is important to delve into its classification nationally and globally.

As stipulated in the NSBA (National Small Business Act) Act 102 of 1996 of South Africa as amended in 2003 and 2004, a small business is a firm with maximum of two hundred workers. However, according to the United States Small Business Administration



(SBA) (2013), entities with less than five hundred workers are regarded as small businesses. While the European Commission (EC) (2009) recognises firms with a maximum of two hundred workers as a small business. Aside the head count method of classification for small businesses, there are other method used for classification of small businesses around the world i.e. classification through the technology used by firms.

Small businesses can also be referred to as medium or micro enterprises in South Africa as well as in the EU (NSBA, 1996, 2004; EC, 2009). This study therefore, recognises the South Africa definition of small business which classified firms with less than two hundred workers as small businesses, because this study is domicile and focused on the Small Scale Agricultural Enterprises in SA.

Small Scale Agricultural Enterprises

Small Scale Agricultural Enterprises operate in the agricultural sector which accounts for about 3% of South Africa's GDP and produces about 13% of the country's total exports. The sector is the main source of food supplies for the country's population of about 55 million people. In addition, the agricultural sector employs about 5.2% of the country's workforce (Statistics South Africa 2017).

In the Vryburg region, agriculture constitutes the biggest economic activity involving animal and crop production and related products. The Vryburg region is credited with the largest beef producing district in SA earning the nickname "the Texas of South Africa" for its beef producing capacity reminiscent of Texas, which is the largest cattle producing state in the US. Most businesses which engage in the agricultural activities are small and micro enterprises, hence the coinage small scale agricultural enterprises in the Vryburg region. Small scale agricultural enterprises therefore operate in an agricultural environment engaging in either crop or animal production or related activities in the Vryburg region. Employment in agriculture has been on the decline nationally and therefore affects Vryburg region as well (Statistics South Africa 2017). There is therefore an urgent need to stimulate growth in the sector by supporting especially small businesses which constitute the backbone of economic activities in the Vryburg region.

Theory of Entrepreneurial Orientation

Covin and Slevin (1989) drawing from Miller's (1983) concept posit that entrepreneurial organisations

have leaders who have a willingness to pursue innovative and proactive strategies which might be risky but have high expected returns. Miller (1983) conceptualised three dimensions of EO innovativeness, risk taking, and proactiveness and they have been applied consistently in the literature. Lumpkin and Dess (1996) broadened the scopes that characterise EO to (5) through the inclusion of autonomy and competitive aggressiveness. First, innovativeness is described as a business environment that supports and encourages innovative models, creative process and experimentation that may lead to new techniques, technology or products, administrations or mechanical procedures and new opportunities for economic gain (Keh, Nguyen and Ng 2007; Chung-Wen 2008; Fairoz *et al.* 2010; Boso *et al.* 2013). Second, risk-taking involves investing in ventures with possibility of significant losses (Keh *et al.* 2007; Chung-Wen 2008; Kaya and Ağca 2009; Fairoz *et al.* 2010; Boso *et al.* 2013). Third, proactiveness relates to businesses acting strategically in order to gain first mover advantage by introducing new products and processes ahead of the competition (Keh *et al.* 2007; Chung-Wen 2008; Fairoz *et al.* 2010; Boso *et al.* 2013). Fourth, competitive aggressiveness reflects the intensity of a firm's combative postures to outperform its rivals in the market/industry (Lee and Lim 2009 and Fairoz *et al.* 2010). Last, autonomy encourages independent and autonomous action in firms which in turn promotes performance (Callaghan and Venter 2011).

The Relationship between EO and Performance of Small Business

Extant research findings regarding the link between EO and firm effectiveness increasingly seem to point towards positive relationship (Wiklund and Shepherd 2005; Covin, Kimberly, Green and Slevin 2006; Keh *et al.* 2007; Li, Huang and Tsai 2009; Kaya and Ağca 2009; Lee and Lim 2009; Lumpkin, Brigham and Moss 2010; Callaghan and Venter 2011; Soininen *et al.* 2012; Dada and Watson 2013). Additionally, Bahula (2012) found a moderate and strong positive association between EO and firm performance in the metals and engineering sector of SA. Furthermore, Haider *et al.* (2017) study of EO and business performance of manufacturing sector SMEs in Pakistan found a positive association between three EO variables innovativeness, proactiveness and risk taking and business performance. Chung-Wen (2008) study on leadership style, EO and business effectiveness of small business in Taiwan found a significant positive link between proactiveness, innovation and business



performance. However, some researchers cast doubt on the universality of this positive nexus arguing that the research outcomes are mixed and therefore inconclusive (Moreno and Casillas 2008; Paauwe 2009; Fairoz *et al.* 2010; Frank *et al.* 2010). Moreno and Casillas (2008) argue that no significant association exists between EO and business performance. Notwithstanding the argument by Moreno and Casillas (2008), this study hypothesizes that:

- H1: Positive association exist between innovativeness and business performance.
- H2: Positive link exist between risk taking and business performance.
- H3: Positive association exist between proactiveness and business performance.
- H4: Positive link exist between autonomy and business performance

RESEARCH METHODS AND DESIGN

Research Design

This paper employed quantitative design which was exploratory and descriptive in nature. Cooper and Schindler (2011) are of the view that exploratory research is useful when what is being investigated is unclear, ill-defined or fairly unknown. The study is descriptive because descriptive studies attempt to systematically provide answers to questions such as who, what, and how or information regarding a phenomenon through data collection summarised using statistical analysis. It may also aim at establishing relationships or the interactions between two or more variables (Cooper and Schindler 2011; Kumar *et al.* 2011).

Study Population and Sampling Strategy

The area of study was the Vryburg region North West Province with a population of 885 Small Scale Agricultural Enterprises. Simple random sampling technique a probability sampling method was employed to ensure that no business is favoured over the other. A sample size of 268 was computed using Raosoft sample size online calculator with confidence level of 95% and margin of error at 5%.

Data Collection

The designed questionnaire for the study comprised of 3 sections namely biographical information, EO and

business performance. EO was measured on the EO 9-item scale which include dimensions namely, risk taking, autonomy seeking, innovativeness, proactiveness and competitive aggressiveness (Knight 2000; Lyon, Lumpkin and Gregory 2000; Matsuno, Mentzer and Özsomer 2002; Keh *et al.* 2007). Competitive aggressiveness was excluded from the modified scale because it was assumed to be measured under proactiveness. Secondly, it was reasoned that small businesses could hardly afford to lead competition wars by adopting aggressive posture towards their rivals. Business performance was measured using financial indicators (sales growth, gross profit and return on investment) and non-financial indicator (growth in the number of employees) over the past 5 years. The scale of business performance was adopted from (Fairoz *et al.* 2010 and Madhoushi *et al.* 2011). The questionnaire was pre-tested with 30 small business owners/managers. The pilot study was carried out to eliminate unclear questions and to improve face and content validity (Cooper and Schindler 2011). Cronbach alpha was used to ensure the internal consistency of the questionnaire with an alpha coefficient score of 0.7 or higher acceptable (Bryman and Bell 2011).

Data Analysis

Statistical Package for Social Sciences (SPSS) software version 24 was utilised to analyse the data for standard deviation, mean, correlation and regression analysis.

RESULTS AND DISCUSSION

Response Rate

The response rate was 74%. From the two hundred and sixty-eight questionnaires distributed 198 questionnaires were filled correctly and returned by small business owners/managers.

Table 1: The Descriptive Statistics of EO Variables

EO Variables	Mean	Standard deviation
Innovativeness	3.55	1.05
Proactiveness	3.15	0.92
Risk taking	3.45	1.00
Autonomy	3.60	1.03
Scale Mean	3.44	
Standard deviation	1.00	
Cronbach alpha	0.73	



Table 1 displays the outcomes of the descriptive statistics on entrepreneurial orientation. The autonomy element is the most vital dimension with a mean of 3.60. This means that small businesses actively encourage members to work independently and solve problems with minimal supervision. The next important dimension is innovativeness with a mean of 3.55. This is followed by risk taking with a mean of 3.45. The next important and the lowest EO dimension is proactiveness which recorded a mean of 3.15. The

scale mean in Table 1 is 3.44 signifies a high level of EO of small business because it is greater than 3.00. This result is in line with a recent study by Koe (2016).

The descriptive statistics of business performance is presented in Table 2. The sales growth with a mean of 3.36 is the most significant factor. The next key variable is the gross profit with a mean of 3.24. This is followed by the return on investment with a mean of 3.04. The employment growth recorded the lowest

Table 2: Descriptive Statistics of Business Performance Variables

Business performance Variables	Mean	Standard deviation
Sales growth	3.36	1.15
Gross profit growth	3.24	1.11
Return on investment growth	3.04	1.04
Employment growth	1.84	0.62
Scale Mean	2.87	
Standard deviation	0.98	
Cronbach alpha	0.80	

Table 3: Measurement of Items and Reliabilities

Item	
EO Component and Business Performance	
Innovativeness Encouraging employees to come up with new ideas at the work place Creatively solving problems concerning products/services Encouraging development of unique ways of marketing products/services Adopting new technology in making products/services Introducing new products/services to the market	0.838
Proactiveness First mover in terms of quality improvements First mover in terms of introducing new products/services to the market Belief that changes in the market creates a positive opportunity for doing business	0.740
Risk Taking Risk and reward behaviour Being bold but cautious in decisions that affect its future Fear of financial loss Implementation of plans only if it is very certain that they will work (dropped)	Initial result 0.506 New result 0.701
Autonomy Encouraging individuals to think of ways of solving problems on their own Employees being allowed to deviate from procedures when necessary Supporting individuals or teams to work on their own without close supervision	0.703
Sales Growth My business is satisfied with the sales growth over the past 1 to 5 years	0.761
Gross profit growth My business is satisfied with the gross profit growth over the past 1 to 5 years	0.740
Return on Investment growth My business is satisfied with the return on investment growth over the past 1 to 5 years	0.792
Employment growth My business is satisfied with the employment growth over the past 1 to 5 years	0.760



Table 4: Correlation analysis Between EO Dimensions and Performance

Model	EOdimensions	Business performance
	Innovativeness	0.4986**
	Risk taking	0.4567**
	Proactiveness	0.4705**
	Autonomy	0.0456
Pearson correlation	Overall EO	0.4735**
N	198	198

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

mean of 1.84. This is ascribed to the fact that small businesses usually employ few employees. The scale mean is 2.87; lower than 3.00 indicating a weak performance by small businesses.

The result of the reliability test to assess the internal consistency of all the variables using Cronbach Alpha is presented in Table 3. However, the reliability of the risk taking dimension appears to be rather low (0.506). This was improved to 0.701 by dropping one of the items comprising that dimension. All the values of the EO component and business performance are above 0.7. This shows that the variables were internally consistent and the scales are reliable for further analyses.

Table 4 illustrates the correlation analysis between the four dimensions of EO and business performance. The Pearson correlation between business performance and innovativeness was significant at 0.4986 followed by proactiveness at 0.4705 and risk taking at 0.4705. Nevertheless, no Pearson correlation was found between autonomy and performance of the business. This result supports Arshad *et al.* (2014) study which found a correlation between innovativeness, risk taking, proactiveness with business performance. The Pearson correlation between the overall EO and business performance recorded a moderate positive correlation of 0.4735. This means if EO value increase/decrease, the value of

business performance will increase/decrease. This result is consistent with Dada and Watson (2013) as well as Li *et al.* (2009) that found a direct nexus between EO and firm performance.

Table 5 show the results of the individual strength of the four dimensions of EO with business performance. The result shows that only three attributes influence business performance. Innovativeness ($p=0.01$), proactiveness ($p=0.02$) and risk taking ($p=0.03$) are significant at 5% level. Therefore, H1, H2, H3 are supported. Autonomy ($p=0.24$) is not significant with business performance. Therefore, H4 is not accepted.

The result of the multiple regression analysis on the four dimensions of EO with business performance is shown in Table 6. There is a significant positive nexus between EO and firm performance since probability value (0.014) is less than 5%. This finding is in line with Soininen *et al.* (2012); Bahula (2012); as well as Matchaba-Hove *et al.* (2015) that found a direct association between EO and firm performance.

CONCLUSION

This study set out to gain a thorough insight into the level of EO and one hand and small businesses performance on the other hand. The ultimate goal was to help in facilitating improved performance of small businesses. The findings suggest that small

Table 5: Regression Analysis of the Individual Strength of EO Dimensions and Business Performance

Model	Standardised coefficients (Beta)	T	P-value
Innovativeness	0.286	2.689	0.01
Risk taking	0.258	2.246	0.03
Proactiveness	0.162	2.354	0.02
Autonomy	0.079	1.176	0.24

Dependent variable: Business performance.



Table 6: Regression Analysis between Overall EO and Business Performance

Model	Unstandardised coefficients		Standardised coefficients	T	p value	Model statistics
	B	Std. error	Beta			
1	(Constant)	0.995	0.356	--	2.797	0.006
	EO	0.061	0.025	0.186	2.472	0.014

Dependent variable: Business performance.

businesses in the Vryburg area North West Province South Africa engage in EO activities and this orientation positively correlate with performance. The result also shows that only three attributes influence business performance. Innovativeness, risk taking and proactiveness while no association was found between autonomy and business performance. Additionally, there is a positive and moderate nexus between the overall EO and the performance of small business.

It has been argued that businesses would be more successful in achieving their growth and profitability goals if they are entrepreneurially oriented. The outcome of this research have provided some support for this position. In addition, the study has shown high manifestation of EO among small businesses which correlate with business performance. This study has shed light on the relationships between EO and firm performance. An intensive and co-ordinated intervention of government and non-government organisations in transforming the small business sector into the real engine of growth of the economy is imperative. Therefore, it is recommended that small business owners/managers be encouraged to integrate and cultivate cultures that support entrepreneurial orientation. The big four banks in South Africa, First National Bank (FNB), ABSA Bank, Standard Bank and Nedbank small business development units could also assist SMEs by providing regular advice on how to start, grow and manage small businesses. This will go a long way in reducing some of the socio-economic challenges of poverty, unemployment and inequality in SA. In addition, this will also reduce the failure rate, improve the performance as well as the sustainability of SMEs in South Africa.

LIMITATIONS

The study focused on Vryburg area North West Province South Africa, therefore, generalizing the findings of this study should be done cautiously.

FUTURE RESEARCH

Future research can be carried out in other regions of South Africa. In addition, studies can also look at EO and firm performance of the other key sectors (Manufacturing, Financial Services, Transport, Wholesale and Retail, Mining and Tourism) in South Africa. A future study may benefit from a qualitative approach owing to the need to uncover the real state of business performance in relation to EO and variables such as innovativeness, risk taking and proactiveness.

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