

**EFFECT OF ENTREPRENEURIAL ORIENTATION ON PERFORMANCE  
OF SMALL MEDIUM-SIZE RESTAURANT BUSINESSES IN NAIROBI  
CITY.**

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**DECLARATION**

I hereby declare that this dissertation is my own, unaided work. It is being submitted in fulfillment of the requirements for the degree of Master of Business Administration Strategic management option from Maseno University. It has not been submitted before for any degree or examination in any other university.

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## **ABSTRACT**

Small Medium Enterprises contribute significantly to economic growth, social stability and equity of Kenya as a country. The sector is one of the most important vehicles through which low-income people can escape poverty. While the restaurant industry plays an important role in the economy, research on entrepreneurial orientation has largely focused on manufacturing firms. Current conceptualizations of entrepreneurial orientation fail to adequately consider the unique characteristics of entrepreneurial orientation and the context within which they must operate. As such, little guidance has been provided regarding its application in other contexts such as the restaurant business. The purpose of this article is to help explore the effect of entrepreneurial orientation on performance of small medium restaurants in Nairobi city in Kenya. This research looks into the background study of entrepreneurial orientation and the restaurant sector. The statement problem of this research looks into how entrepreneurial orientation can have a positive effect on restaurants as compared to large firms that have been researched on. The main objective of this research is that it seeks to investigate the effect of entrepreneurial orientation on performance of small and medium restaurants in Nairobi City, other objectives are effect of innovation, competitive aggressiveness and risk taking and how it affects performance of restaurants. The scope of this study is Nairobi city and a conceptual framework is designed to give a roadmap in the research. This study will contribute more to the area of entrepreneurship studies, help policy makers have informed decisions and sensitize and inform entrepreneurs on this area. The literature review looks into the theoretical perspectives that relate to the topic of study and a critical analysis of the relationship among different works, and relating that research to my work. The research design to be used in this research is descriptive research design, the study area is Nairobi city with a target of 100 restaurant managers and my sample frame will be calculated using Solvin Plus formula. Primary and secondary data will be used and collected using Questionnaires and face to face interviews plus books and written journals on this area of research. Reliability and validity test will be used in this research data will be analyses using SPSS 21 and presented on graphs, pie charts and frequency distribution tables.

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## **ABBREVIATIONS**

|     |   |                             |
|-----|---|-----------------------------|
| EO  | : | Entrepreneurial Orientation |
| SME | : | Small Medium Enterprise     |
| MSE | : | Micro Small Enterprises     |
| GDP | : | Gross Domestic Product      |

## DEFINITION OF TERMINOLOGIES

For this study, the following definitions for the key terms and concepts are as follows:

**Small and Medium Enterprises (SME)** - The Kenyan definition of SMEs in terms of employment consists of: Micro enterprises – from 0 to 9 employees; Small enterprises – from 10 to 49 employees; Medium enterprises – from 50 to 149 employees; and large enterprises – from 150 and over while the Sessional Paper set a limit of 50 workers for the small-medium enterprises in Kenya (GOK, 1992). This study used firms employing less than 50 workers, referred to as micro and small enterprises.

**Entrepreneurship:** it is the willingness to take risk and develop, organize and manage a business venture in a competitive global or local market place that is constantly evolving.

**Entrepreneurial Orientation:** EO refers to the process, practices, and decision making activities that lead to new entry. It emerges from a strategic-choice perspective which asserts that new-entry opportunities can be successfully undertaken by purposeful enactment.

**Innovation:** A willingness to introduce newness and novelty through experimentation and creative processes aimed at developing new product and services as well as new processes.

**Risk taking:** Making decision and taking action without certain knowledge of probable outcome; some undertaking may also involve making substantial resources commitments in the process of venturing forward.

**Competitive aggressiveness:** An intense effort to outperform industry rivals. It is characterized by a combative posture or an aggressive response aimed at improving position or overcoming a threat in a competitive marketplace.

**Effect:** (noun) a change that is a result or consequence of an action or other cause; (verb) causes (something) to happen; bring about Cambridge Dictionary.

## CHAPTER ONE: INTRODUCTION

### 1.1 Background of the Study

Throughout the world, shifts in population demographics, technological changes, fluctuating economies and other dynamic forces have transformed societies as never before, bringing new challenges and opportunities to the forefront. Among the responses to these shifting forces is an increased emphasis on entrepreneurship by governments, organizations and the public (GEM Global Report, 2012). Micro and Small Enterprises (MSEs) play an important economic role in many countries the world over. Their activity is a source of new jobs and an important factor in a free-market economy; a significant impact on economic development and immense influence on the market (Lukes & Laguna, 2010). Their contribution to economic development, income generation and poverty alleviation is widely recognized (ILO, 2007).

Research shows that the significance of Kenya's micro and small enterprise (MSE) activity has continued to grow since the sector was first brought into the limelight in 1972 in a report by the International Labour Organization (ILO) on employment, income and equity in Kenya. The evolution and historical Circumstances responsible for the emergence of the Informal sector In Kenya can be traced back In earnest, to the early 1960s when the newly Independent government Introduced trade licenses, work permits and state-owned monopoly organizations as well as permission to allow civil servants to operate businesses all as part of a broader strategy for the indigenization programme (Andrew Muller & Crispin Bokea, 1999).

Andrew Muller (1999) says due to the economic space and opportunities created by this set of legislations and the subsequent slowdown in economic activity, especially beginning in the mid 1970s the number of micro and small enterprises often operating informally continued to grow. The trend continued into the 1980s and early 1990s. In the latter period the MSE sector has witnessed a bustling of activity and a dramatically renewed Interest by both external agencies and national governments. In Informal sector activities with a desire to intervene directly in this sector, in contrast with the more or less benign neglect that characterized the early years. This is how micro small and medium to large businesses grew in Kenya up to the 21<sup>st</sup> century.

### **1.1.1 Entrepreneurial Orientation**

Entrepreneurial orientation refers to a firm's strategic orientation, acquiring specific entrepreneurial aspects of decision making styles, practices and methods (Wiklund & Shepherd, 2003). EO also represents a frame of mind, perspectives about entrepreneurship reflected in one's business process and culture. It involves making innovative products, to undertake somewhat risky ventures and to be proactively oriented (Miller, 1983 and Covin and Slevin, 1989). Later Lumpkin and Dess (1996) incorporated two additional dimensions: autonomy (propensity to act autonomously) and competitive aggressiveness (tendency to act aggressively towards competitors) this therefore relating to success because they influence how situations are perceived and what strategic decisions are taken. EO is the degree of the phenomenon of firms that demonstrates the process, practice and decision-making activities that will lead the firm to become a leader in a newly entered business (Kroeger, 2007). From the behavioral perspective, Covin and Slevin (1989) shows the conceptual model of EO based on entrepreneurial activity, include innovative, proactive and risk taking. Business oriented organizations will enhance the EO behavior in the form innovate, willing to take risk and always trying to produce new products through proactive behavior in order to capture the market opportunity (Wiklund and Sheperd, 2005).

### **1.1.2 Business Performance**

In enterprise management, an organization's performance can be defined as how well the organization is managed and the value the organization delivers to the customers and stake holders (Moulling, 2003). Businesses with entrepreneurial orientation will give you the capability to discover and exploit new market opportunities (Wiklund & Sheperd, 2003). Some have employed a variety of financial measures like cash flow, return on assets and return on equity to assess firm performance. Others suggest a combination of financial and non-financial measures offers more comprehensive evaluation on a firm's performance (Li et al 2009). Subjective non-financial measures include indicators such as perceived market share, perceived sales growth, customer satisfaction, loyalty and brand equity (Li et al, 2009). Small enterprise performance can be seen from level of sales, profit rate, return on capital, turnover and market share achieved (Jauch and Glueck, 1988). Small enterprise growth constraints was come from inherent weaknesses in internal Small enterprises, namely: lack of knowledge and technology for

production, lack of knowledge in marketing and skill constraints in resources (human and financial) and the lack of knowledge and management capabilities (Tambungan, 2009). Sanchez & Marin (2005) measures the performance of small enterprises with reference to three aspects, namely profitability, productivity, and market. Profitability aspect sees business performance from point of financial targets achievement as planned by company. Financial goals are generally focused to achieve revenue, profit, cash flow, rate of return on capital employed, rate of return on investment or economic value added. Productivity is based on company achievement in its business activities to meet customer wants and needs, as well as employee's productivity. Business performance is based on market aspects in terms of achievement of product sales, market position and market share.

### **1.1.3 Entrepreneurial Orientation and Business Performance**

Adopting an entrepreneurial strategic orientation EO involves a willingness to innovate to rejuvenate market offerings, take risk to try out new and uncertain products, service, and market and be more proactive than competitors towards new market opportunities (Covin and Slevin, 1991). This will depend on the relationship between EO and performance and the characteristics of the external environment as well as internal organization (Lumpkin and Dess, 1996). This is important because in today's business environment there is a tendency to shorten product and business model life cycle, this because the future profit stems from existing operations are uncertain and businesses need to constantly seek out new opportunities (Hamel, 2000).

Entrepreneurial Orientation has been widely touted by researchers alike as an effective means of improving firm financial performance. The implicit logic behind the pervasive belief in the value of entrepreneurial orientation seems to be that the key elements of entrepreneurial orientation will help firms in identifying and pursuing lucrative product/market opportunities and in providing bases for achieving superior competitive positions (Ireland et al., 2009). Also entrepreneurial orientation activities in a firm have resulted in diversified product and markets, as well as being instrumental to producing impressive financial results (Aktan et. al 2008). Entrepreneurial orientation is also positively linked to intangible outcomes, like knowledge, skill development and job satisfaction. The ability of the firm to stay competitive is directly related to a firm's intensity to take calculated risks (Awing et al., 2010). Innovation in the firm of new products, services and processes can lead to sustainable competitive advantage (Fairoz et al,

Hung and Chiang, 2010). Firms with more entrepreneurial orientation perform better than firms that are not (Zempetaki et al., 2011). Entrepreneurial orientation can help a firm to create and sustain competitive advantage in the market place (Van Geenhuizen et al., 2008).

The dimensions of entrepreneurial orientation can lead to market growth (Lumpkin and Dess 2001). The innovativeness dimension of entrepreneurial orientation reflects the tendency to engage in and support the novelty to create and introduce new products, services or technology. The risk-taking orientation indicates a willingness to engage resources in strategies or projects where the outcome may be highly uncertain. Proactiveness refers to a firm's response to promising market opportunities. Competitive aggressiveness involves the propensity to directly and intensely challenge its competitors. Autonomy describes the authority and independence given to an individual or team within the firm to develop business concepts and visions, and to carry them through to completion. If new businesses have more aptitude for innovativeness, risk taking, proactiveness, competitive aggressiveness and autonomy, they will gain greater competitive advantage and accomplish higher firm performance. Therefore an effective entrepreneurial orientation may be a good predictor of a firm's performance

#### **1.1.4 Small and Medium Enterprises in Kenya**

Small and medium enterprises in Kenya today are struggling in the area of strategic business management and performance. Kenya is a developing country highly dependable on SMEs as one of the key areas for job creation and strategic economic growth. Most small businesses face intense competition and consequently, do not have the power to increase their prices or offset cost increases of raw materials or supplies. Their advantages lay in their flexibility and less rigid organizational structures, which on average promotes a higher speed of response. As a result, small enterprises generally contribute to the creation of economic and social value (Lin & Chen 2007). Exploring the effect of entrepreneurial orientation on performance of MSEs is very timely, given the competitive conditions faced by businesses in today's economy.

The growth of jobs and GDP in developing countries is heavily dependent on the growth and health of a country's small business sector. As described by international agencies and economists (IFC, 2000; Spring and McDade, 1998; Steer and Taussig, 2003), small enterprises are an important contributor to economic growth, household income and social stability. For both

start-up ventures and existing firms, entrepreneurship carried on in the pursuit of business opportunities spurs business expansion, technology progress, and wealth creation. Entrepreneurial activity represents one of the major engines of economic growth and today accounts for the majority of the new business development and job creation in the United States (Business week, 1993) and as such create an area of research interest. As described by Kenyan officials as early as 1992, the small sector in Kenya contributes to GDP, creates jobs, develops a pool of skilled labor for future needs, provides managerial learning opportunities, increases the savings and investments of local Kenyans and reduces poverty (Republic of Kenya, 1992).

In Kenya, the small business sector has both the potential and the historic task of bringing millions of people from the survivalist level including the informal economy to the mainstream economy. My research will look into the restaurant sector and how entrepreneurial oriented they are.

### **1.1.5 The Restaurant Industry in Nairobi city**

A restaurant is a business establishment which prepares and serves food and drink to customers in return for money, either paid before the meal, after the meal, or with a running tab. Meals are generally served and eaten on premises, but many restaurants also offer take-out and food delivery services. Restaurants vary greatly in appearance and offerings, including a wide variety of the main chef's cuisines and service models.

The restaurant industry has features which set it apart from other areas of the service sector such as financial and professional services. It is closely concerned with food choice and quality, but at the same time has long been considered to offer a rich meal experience to which many other factors contribute (Johns & Pine, 2002). This industry exemplifies two aspects of postmodern consumer culture. It is flexible, artisan-focused and context-dependent enough to offer a high degree of customization (Peacock, 1992). At the same time, this is the industry that has seen the most blatant operationalization of service (Johns & Pine, 2002).

One of the key strategies in national development in Kenya is the promotion of SMEs (Republic of Kenya, 1992). In Kenya SMEs employ up to 20 employees and restaurants fall under SMEs (Parker and Torres, 1194, McCormick, 1996). Hotels and Restaurants in Kenya are divided into four categories namely: class A, B, C and D. Class A is constituted of registered and licensed

restaurants that offer food and beverages. Class C is constituted of restaurants and hotels that offer food, beverages and entertainment. Class D is constituted of hotels that offer food, beverages, accommodation and entertainment. This study focused on class A category of restaurants only. Class A category of restaurants was further divided into small, medium and large restaurants. Small restaurants employ less than five employees; medium restaurants, 6-15 employees and large restaurants employ over 15 employees

The characteristics of SMEs in Nairobi City have been described as those of self employment with high proportion of family workers and apprentices, requirement of little capital, ease of entry and exit and small scale nature of activities and have little access to organized market (Kendi, 2012). Restaurants form a considerable number of SMEs in the Nairobi's City selling products ranging from Fresh juices, Smoothies, Coffee and various foods and employing between 10 and 99 employees. Due to globalization, SMEs in Nairobi CBD have to compete in the global market by developing competitive advantages which are affected by costs and quality.

According to Maragia (2008), there is a pronounced lack of information gap about why many Kenyan entrepreneurs do not flourish in their micro and small endeavors. Available literature attributes this to lack of entrepreneurial skills, education and experience amongst entrepreneurs (Maragia, 2008). Some of the gaps created in this area are that there is little research done in Kenya on the effect of entrepreneurial orientation on small medium restaurant performance. What contextual factors shape entrepreneurial orientation in SMEs and its potential contribution to performance has been little researched on. A lot of research has been done on firm level perspective as well as individual level perspective which investigate the relationship between business owners EO and business performance and little on small medium size restaurants. Also in this research most literature on entrepreneurial orientation is devoted to the studies of how large organizations measure their performance and apparently avoid understanding how small enterprises measure performance. Entrepreneurial orientation research is focused more on large organizations and their positive impact and can this be viewed on small medium enterprises. Also little research had been conducted on the effect of entrepreneurial orientation on performance of restaurant. Time line is a gap in this area of research plus EO differs in different countries. As in many developing countries, there is limited research and scholarly studies about SME sector in Kenya. The 1999 National Base Line Survey conducted by Central Bureau of



statistics, ICEG and K-Rep Holdings provide the most recent comprehensive picture of SME in Kenya. Mead (1998) observed that the health of the economy as a whole has a strong relationship with the health and nature of micro and small enterprises sector.

## **1.2 Statement of the problem**

The purpose of this research is to help in the investigation of effect of EO on performance of small medium restaurants. EO is the strategy making practices that firms make to identify and launch ventures. The Micro and Small Enterprises sector in Kenya has always occupied a pivotal position in the development of the economy. Their contribution to economic development, income generation and poverty alleviation is widely recognized. According to the Government of the Republic of Kenya (2014) the Kenya National Bureau of Statistics showed that small and medium enterprises contributed over 70% of the GDP in 2013. The background information of the study indicates that small and medium enterprises are faced by constant threat of failure and most do not graduate into large enterprises. Bowen, Morara & Mureithi (2009) say that over 60% of SMEs fail each year, and Ngugi (2013) also adds that most do not survive to their third anniversary. Brown Davidson (2008) acknowledges' that the key determinant for a firm's growth and profitability is on entrepreneurial orientation. It has been related to high firm growth, superior performance and longevity. High adoption of innovativeness, risk-taking and competitive aggressiveness are seen as a key ingredient to success of firms (Frank, Kessler & Fink, 2010). Would the small medium size restaurants experience the same effect as this or a different result? Most literature have focused on the influence of and effect of EO on manufacturing firms and cooperate companies and little on restaurants, yet the little research done on EO of restaurants most of it is done in international countries.

## **1.3 Objectives of the study**

The main objective of this study seeks to investigate the effect of entrepreneurial orientation on performance of small and medium restaurants in Nairobi City.

### **Specific objectives**

1. To determine the effect of innovation on the performance of restaurants in Nairobi City.
2. To determine the effect of risk taking on the performance of restaurants in Nairobi City.
3. To determine the effect of competitive aggressiveness on the performance of restaurants in Nairobi City.

#### **1.4 Research Questions**

1. What is the effect of innovation on the performance of restaurants Nairobi City?
2. What is the effect of risk taking on the performance of restaurants in Nairobi City?
3. What is the effect of competitive aggressiveness on the performance of restaurants in Nairobi City?

#### **1.11 Scope of the study**

This study is limited to the area of research which generally doesn't represent the whole country where there a lot of small enterprises. It will also focus its research in the restaurants in Nairobi City. It will also be limited to the research findings and methodological processes used.

#### **1.12 Justification of the study**

This study will be useful for entrepreneurship in sensitize the entrepreneurs of the sector to understand what factors that shape entrepreneurial behaviour and enhance business performance, which factors the entrepreneurs will embrace to grow their enterprises. In research academia at universities and other institutions that conduct research, the study findings will contribute to the pool of additional literature. This study will contribute to the entrepreneurship literature by focusing on the type of firms that are the centre of entrepreneurship research, that is, SMEs. It will be able to influence policy makers to make informed decisions.

#### **1.13 Conceptual Framework**

The conceptual framework provides a relationship between the independent and dependent variable in the study. The independent variable in the study is entrepreneurial orientation and dependent variable is performance. It gives an integrative framework for exploring the relationship between entrepreneurial orientation and performance. In this frame work we see that entrepreneurial orientation is measured by innovation, risk taking and competitive aggressiveness and how it directly influences performance. Entrepreneurial orientation will be measured with three variables that is innovation, risk taking and competitive aggressiveness and how does this affect the performance of the restaurant by looking at the profits, sales and employee numbers over a period of time.

**Entrepreneurial orientation**

- 1 Innovativeness
- 2 Risk taking
- 3 Competitive aggressiveness.

**Independent variable**

**Performance**

- 1. Profit
- 2. Sales
- 3. Employee numbers.

**Dependent variable**



Source: Figure 1 Conceptual Framework for Study

## **CHAPTER TWO: LITRATURE REVIEW**

### **2.0 Introduction**

This chapter presents a review of literature that is related to the study. The chapter also identifies the theoretical and empirical review and the gaps.

### **2.1 Theoretical Perspectives**

#### **Schumpeter's Innovation Theory.**

Schumpeter (1934) cited in Karol Sledzik (2013) highlights that Schumpeter argued that anyone seeking profits must innovate. That will cause the different employment of economic system's existing supplies of productive means. Schumpeter believed that innovation is considered as an essential driver of competitiveness and economic dynamics. He also believed that innovation is the center of economic change causing gales of "creative destruction", which is a term created by Schumpeter in *Capitalism, Socialism and Democracy*. According to Schumpeter innovation is a "process of industrial mutation that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one". Schumpeter described development as historical process of structural changes, substantially driven by innovation. He divided the innovation process into four dimensions: invention, innovation, diffusion and imitation. Then he puts the dynamic entrepreneur in the middle of his analysis. In Schumpeter's theory, the possibility and activity of the entrepreneurs, drawing upon the discoveries of scientists and inventors, create completely new opportunities for investment, growth and employment. In Schumpeter's analysis, the invention phase or the basic innovation have less of an impact, while the diffusion and imitation process have a much greater influence on the state of an economy. The macroeconomic effects of any basic innovation are hardly noticeable in the first few years (and often even longer).

Schumpeter (1934) cited in Aloulou and Fayolle (2005) highlighted that entrepreneurship is about combining resources in new ways (such as the introduction of new products with higher quality, with new methods of production, breakthroughs in new market, conquests of new sources of supply of raw materials and reorganization of a new sector) that disrupts the market equilibrium in economic systems. Complementary to the above definition, Madsen (2007) citing

Churchill (1992) and Shane and Venkataraman (2001) presents that entrepreneurship is about searching for opportunities and/or processes that uncover and develop opportunities.

### **2.1.6 Entrepreneurial Orientation Theory at Individual Level**

Entrepreneurial theories relate to the individual or the enterprise (Callaghan, 2009). At the individual level of entrepreneurship, the origins of definitions of entrepreneurship go back to Cantillon's definition (circa 1700) of an entrepreneur as a rational decision maker who assumes the risk and provides management for the firm. The entrepreneur is also seen as an economic actor having a driving force for economic development (Kirzner, 1997). Schumpeter (1934) viewed entrepreneurs as revolutionaries of the economy whose economic function is the realization of new combinations in the course of which they are the active element while McClelland's (1961) theory relates to entrepreneurs as having a higher need for achievement (Callaghan, 2009). Callaghan (2009) adds to the Schumpeterian spectrum of EO, two dimensions; Learning and Achievement orientations.

The individual level theoretical basis of entrepreneurship has not been without criticism. For instance, Shapero and Sokol (1982) criticize individual centered perspectives of entrepreneurship and argue against McClelland's (1961) need-for-achievement theory on the deficiency of the theoretical process resulting in what they call "an oversimplification of the subject". As well, Shane (1996) argues that the "trait" approach, whereby an individual's distinguishing characteristics, including personality characteristics, are related to entrepreneurial variables, is often studied according to a flawed approach. However, Mappiagu and Agussalim (2013) report that a number of research studies have argued the need for small firm entrepreneurs to develop entrepreneurial and managerial competencies as proper allocation of these two roles crucially underpin small firm survival (Peljhan, 2012).

### **2.1.7 Entrepreneurial Orientation Theory at the Enterprise**

In contrast to the theories of individual-based factors that impact the entrepreneurial process, Covin and Slevin (1991) take a firm-behaviour perspective, reasoning that firm behaviour represents action and measurability, and a that a firm's behaviour can be managed. Covin and Slevin (1991) offer a model of entrepreneurship with firm performance as the dependant

variable, with clearly defined variables relating to environmental, organizational and individual factors, and including moderator effects as well as direct effects.

Innovation, proactiveness and risk taking are utilized as measures of entrepreneurship in a study of the relationship between entrepreneurship and enterprise typologies undertaken by Miller (1983). Theorists offer various different factors as determinants of entrepreneurship, including personality factors; psychodynamic characteristics; socio-cultural background factors; environmental and structural factors; decision making; and structure according to Miller (1983).

Miller (1983) argues that the factors that determine entrepreneurship need to be contextualised according to the type of enterprise that entrepreneurship is explored in relation to. Much of the conflict in the literature, according to Miller (1983) arises from a failure to distinguish among company types in examining the correlates of entrepreneurship.

According to Carland et al. (1988) both behavioural and trait theorists are mistaken for not pursuing the “why” of entrepreneurship, and all the parts of entrepreneurship and their interactions need to be understood. For Stevenson and Jarillo (1990) entrepreneurship theory can be understood as having certain dimensions: the “why” dimension associated with psychology and other sciences that seek to explain why entrepreneurship occurs and the “how” of entrepreneurship, which represents enterprise behaviour. According to Stevenson and Jarillo (1990) enterprise behaviour can therefore be learned. This learned enterprise behaviour, or “how” of entrepreneurship, according to Stevenson and Jarillo (1990), is associated with the field of management. An entrepreneurial orientation represents entrepreneurial behaviour, which can be exhibited by enterprises or by individuals, according to Lumpkin and Dess (1996). Enterprise behaviour is therefore relevant to entrepreneurship, according to these conceptions.

The individual street trading enterprise represents both an individual and an enterprise. In terms of this, enterprise literature associated with larger enterprises is also reviewed in order to provide an insight into similarities and differentiating factors associated with entrepreneurial orientation and entrepreneurial performance.

### **2.1.8 Entrepreneurial Orientation Theory at the Entrepreneurial Context**

Context is important in terms of entrepreneurship research, and provides a justification for the research of entrepreneurial orientation with specific regard to context. Shane (1996) is a theorist who extended research to all three of these areas. His research included the following variables influencing levels of entrepreneurship: the traits attributed to the entrepreneurial founders; internal factors of the firm; and external contextual or environmental factors. It is argued that this dissertation tests theory relating to all three of these areas; it offers an integrated process of testing theory relating to the individual, to entrepreneurial behaviour in terms of entrepreneurial orientation and to context in terms of tested contextual factors. According to Covin and Slevin (1991) the entrepreneurial process can be viewed as an entrepreneurial posture that impacts firm performance, with three groups of factors that have a strong effect on this entrepreneurial posture: external variables, strategic variables and internal variables. In terms of the external factors affecting entrepreneurial posture or firm performance, the following is a consideration of the context of entrepreneurship.

Many firm start ups may be in a category separate from other individual start ups in that they might be started by owners involved in other enterprises at the same time, and consequently some research may show little or no growth in small firms when in fact growth is occurring in the form of clusters of small firms (Scott and Rosa, 1996). This might be an effect that extends to the informal sector. According to this, entrepreneurial performance, in terms of growth related effects, is expected to be lower for enterprises that are part of a cluster of enterprises.

Scott and Rosa (1996) identify an increase in this phenomenon of clusters of multiple enterprises owned by entrepreneurs being associated with increases in capital assets, knowledge and business experience, with as many as one in five firms in their investigation being part of these clusters. According to Scott and Rosa (1996), these enterprises might behave atypically when compared to individually operated enterprises.

Scott and Rosa (1996) argue that working people are increasingly becoming involved in starting new firms and this diversification as a strategy is found to be associated with lower levels of growth in each unit firm. The increasing complexity created by this growth is dealt with through

the establishment of new firms initially and the formation of corporate holding companies at a larger stage of growth.

However, multiple business owning entrepreneurs showed lower levels of business failure. According to a review of data relating to business survival in United Kingdom enterprises, Scott and Rosa (1996) found these enterprises to have lower failure levels, at about 5 percent, as opposed to the usual start ups at 53 percent within the first five year period. The informal street trading context might also be exposed to a more complex interplay of variables (Scott and Rosa, 1996) that might not be evident in the study of a firm in isolation. It is argued that context cannot be excluded in terms of entrepreneurship research in the informal sector street trading context.

Stearns, Carter, Reynolds and Williams (1995) researched entrepreneurship in terms of the individual characteristics of enterprise founders, structural characteristics of the enterprise and environmental factors or contextual conditions with regard to the discontinuation of enterprises. Stearns et al. (1995) found that internal factors such as the distribution of authority and spans of control that are associated with an emphasis on the internal conditions of the enterprise do not sufficiently explain new firm survival over time.

The study of a firm in isolation, or without reference to context, might not truly capture the complexity of entrepreneurship, in that the sciences of business, economics, psychology, sociology and politics are important contributors to the field of entrepreneurship according to Bygrave (1989). Theoretical concepts from the social sciences such as sociology and psychology are integrated with the practical concepts of the applied sciences such as economics to gain an understanding of the entrepreneurial process, a process that is fundamentally a non linear, disjointed and often unique interaction of many variables (ibid.). If this consideration of the complexity of the entrepreneurial context is necessary, in the specific context of the inner city street trading population, a consideration of entrepreneurship in terms of population research might be necessary.

Chow (2006) conducted a study of 3562 enterprises and entrepreneurial orientation comprising proactiveness, innovativeness and risk taking propensity, within the Chinese enterprise context. He noted that the highly significant negative correlation with the environment and



entrepreneurial orientation confirms that a favorable environment is effective in promoting enterprise entrepreneurship.

For Shane (1996), the environmental approach to entrepreneurship regards entrepreneurs as products of environmental factors may best be studied longitudinally. However, according to Shane (1996), the environmental approach may suffer from a lack of focus on the interdependence between different populations, by ignoring or not controlling for some “trait-based” factors and not taking enough notice of changes in technology and population growth over time. In terms of the importance of the interdependence relating to populations (Shane, 1996), the following theory relating to population effects is reviewed due to its potential relevance to the entrepreneurial street trading enterprise.

### **2.1.9 Small and Medium Enterprises in Kenya**

SME sector in Kenya has occupied a pivotal position in the development of the economy. This sector is a primary source of employment and income. It expands from enabling 3.7 million people in 1999 to 5.1 million in 2002 according to a recent report sessional paper No 3 of 2004 (GoK, 2005). The role of small and medium enterprises in Kenya’s development process is significant, particularly in the context of generating employment, wealth creation and income opportunities to thousands of people across the country (Makokha, 2006). The importance of SMEs to the Kenyan economy cannot be over emphasized. Even in developed economies of the UK and U.S.A., small and medium enterprises make a great contribution to employment generation and creation of wealth, invoking great interest in many Governments. A study by Baron (2007) avers that MSEs offer solutions to the problem of employment generation and economic imbalances. MSEs are created by and are home to entrepreneurs.

An entrepreneur is a role model in a society, one who creates something new, something different, always searching for change, responding to it, and exploiting it (Maragia, 2008). The reputation of entrepreneurs from developed countries in the European Union (EU), rest of Europe and USA is remarkable. In America for instance, entrepreneurs are respected for their role in creating new jobs, providing new competition to existing businesses, improving product quality, reducing prices, introducing new goods and services through innovation and technology advancement. For example, Bill Gates, through Microsoft has contributed immensely towards

information technology. Suffice it to say entrepreneurship has formed the basis for advancement in technology through creation of new job-markets (Baron, 2007).

According to the Kenya 1999 National Baseline Survey report, micro and small enterprises have been defined as businesses employing up to 50 workers. By employment, it does not necessarily refer merely to the payment of wages; it includes those engaged in the activities of the business. It should be noted that the Kenya, micro enterprises are businesses employing up to ten workers including the owner while small enterprises employ more than 10 and up to 50 workers (GoK, 2005). Table 1 below gives definitions of micro, small and medium enterprises (MSME) in Kenya.

**TABLE 1: KENYA SME DEFINITION**

| <b>ENTITY<br/>(Trade,<br/>service,<br/>industry or<br/>business<br/>activity)</b> | <b>NO. OF<br/>EMPLOYEES/<br/>PEOPLE</b> | <b>ANNUAL<br/>TURNOVER<br/>LIMIT</b> | <b>INVESTMENT IN<br/>PLANT AND<br/>MACHINERY +<br/>REGISTERED<br/>CAPITAL</b> | <b>EQUIPMENT<br/>INVESTMENT +<br/>REGISTERED<br/>CAPITAL</b> |
|---|---|--------------------------------------|---|--|
| Micro enterprise  | Less than 10 people                     | Not exceeding Ksh. 500,000           | Not exceeding Ksh. 10M  | Not exceeding Ksh. 5M  |
| Small enterprise  | More than 10 but less than 50           | Between Ksh. 500,000 to Ksh. 5M      | More than 10M but less than 50M   | More than 5M but less than 20M                               |
| Medium Enterprise   | More than 50 but less than 100          | Between Ksh. 5M to 800M              | <i>Not specified in the draft bill</i>  | <i>Not specified in the draft bill</i>                       |
| Micro, Small and Medium (MSME)  | Less than 100                           |                                      |   |  |

**Source:** MSME Bill 2009

SMEs in Kenya have grown from 910,000 in 1993 to about 1.3 million in 1999 and the number is expected to have grown further, accounting for up to 74.2% of the total employment. MSE SMEs contribution to GDP increased from 13.85% in 1993 to about 18.4% in 2002 (Sessional Paper No. 3 of 2004). Small enterprises started at family level have grown to contribute to

national revenues by way of taxes. Small enterprises in South 19 East Asian countries like Japan, India, Korea and China have contributed immensely towards creation of new goods and services. Market failure has constrained SMEs development in Kenya as in many developing countries in areas of access to information, finance, labour skills and business development services (BDS) necessary for competitiveness and productivity.

Lack of information and experience in transactions is a common factor that hinders the progress of SME towards the willingness to take risks. Nevertheless, Kenya with its long private sector tradition has significant potential to establishing sustainable support services. Demand-driven approaches are likely to bring forth a sustainable supply response to market failures (Bwisa, 2001). It is anticipated that if measures are put in place to ensure that SME entrepreneurs have access to finance, the skills required to cope with market demands and market linkages, their access to resources for growth would be facilitated. Also required in this regard are a reduction of critical investment climate constraints, helping SMEs to exploit opportunities and overcome bottlenecks by obtaining training, preparing business plans and strategic planning and reducing the cost of compliance with business regulations.

Small and medium enterprises in Kenya, both men and women, have attempted to express their desire to improve and expand, but majority of them have given up; others remain stagnant or collapse. This is most likely due to deficiencies in entrepreneurial skill, education, experience, amongst other factors that determine entrepreneurial behavior (Maragia, 2008). The absence of these factors have been found to limit the capacity of individuals to comprehend their requirements in the present competitive business environment and the necessity to adopt technology-for example computers, Internet and e-commerce.

In recognition of the importance of SMEs' role in economic development, many agencies, NGOs, ILO, Government of Kenya (GOK) and the international community have tried and stimulate Kenyan entrepreneurship. Nonetheless, some of the funding and technical assistance given to business people in cooperative societies in the 1980s, for example, brought little or no capacity to attain modern economic discipline and business standards. It proved futile and a waste of money and other development resources. Indeed, it pointed to the necessity of seeking ways to develop the factors that shape entrepreneurial behavior among a critical mass of Kenya

entrepreneurs. The Kenya government would need to ascertain that if developed, these factors would lead to the desired result.

## **2.2 REVIEW OF EMPIRICAL STUDIES.**

### **An empirical research done by other scholars and highlighting the gaps that exist**

A research by She Jai, Xu Guanglun (May 2012) on exploring entrepreneurial orientation conceptualization in the restaurant industry says that entrepreneurship is a dynamic process of vision, change, and creation. It requires an application of energy and passion towards the creation and implementation of new ideas and creative solutions. He says that firms that want to engage in successful corporate entrepreneurship need to have an entrepreneurial Orientation. The research shows that EO construct is potentially important to entrepreneurship research and has received much attention. Also they noticed that the measurement scale built to define entrepreneurial proclivity are only limited to define the traditional manufacturing firms and fail to adequately consider the unique characteristics of EO in the restaurant industry context. In his research current conceptualization of EO failed to adequately consider the unique characteristics of EO and the context within which it must operate. Therefore his research only covered a particular area and failed to represent the whole entire sector of restaurants.

Belinda Muriuki (2013) did a research on micro and small restaurants in Nairobi's strategic response to their competitive environment. The research shows that restaurants experience various competitive forces and employ various strategic responses to respond to competition. In the research managers and owner managers were the major players directly involved in decision making with an equal representation of 45%. It confirms that there is no market leader in the MSE restaurant industry to set the tone for competition. Therefore Belinda Muriuki concludes that there was no general consensus among the respondents on the strategic responses MSE restaurants employ in response to the common competitive forces they face. This study only focused on identifying strategic responses employed by MSE restaurant in Nairobi which may not be generalized across the entire restaurant industry in Nairobi.

E.W.Nyoike (2014) did a research on factors influencing the growth of small scale restaurants in Nakuru Municipality Kenya he found out that growth of small-scale restaurants in Nakuru Municipality is influenced by both internal and external factors. He also investigated the factors

that influence the growth of small-scale restaurants in Nakuru municipality and concluded that small – scale restaurants in Nakuru Municipality have been growing in terms of the number of employees, turnover and expenses. This research only looked into factors influencing of small scale restaurants and doesn't capture factors influencing EO in restaurants.

### **2.3 Summary**

There many gaps created in the Empirical research review on the effect of entrepreneurial orientation on performance of small medium size restaurants in Nairobi. One of the gaps created is that we have seen a lot of research done in restaurant sector are dealing with the conceptualization of, influence of growth, strategic response to their competitive environment and little done on the effect of entrepreneurial orientation. Area of research is also a big challenge when conducting research as seen in the review as different factors influence the restaurant sector differently in different areas.

National restaurant association (2015) of Washington DC says that restaurant growth will still continue citing that one of the reasons is that they have a healthy labour market; wage growth in the market has started to pick up in areas where there was stagnation; pent-up demand remains elevated meaning people having salaries are willing and able to eat in the restaurants; and consumer crave experience where consumers are selective in choice and preference of what to eat makes the restaurants more competitive. This offers one a reaseason to investigate on the performance of the restaurant sector.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

In this chapter the research methodology used in the study is described .the geographical area where the study was conducted, the study design and the population and sample are described. The instruments used to collect the data including methods implemented to maintain validity and reliability of the instrument are described.

### **3.2 Research Design**

Descriptive research design will be used in this research project. Descriptive design refers to the type of research question, design, and data analysis that will be applied to a given topic. Descriptive studies, primarily concerned with finding out "what is," might be applied to investigate a question. Glass & Hopkins, 1984 says that descriptive research can be either quantitative or qualitative. It can involve collections of quantitative information that can be tabulated along a continuum in numerical form, such as scores on a test or the number of times a person chooses to use a-certain feature of a multimedia program, or it can describe categories of information such as gender or patterns of interaction when using technology in a group situation. He further says that it involves gathering data that describe events and then organizes, tabulates, depicts, and describes the data collection. In descriptive design it will be possible to collect data and analyze it and find clear results for the finding. Therefore this research design will be able to give quantitative information that can be tabulated in the research.

### **3.3 Study Area**

This study will be conducted in Nairobi City which falls under Nairobi County. The city has a lot of restaurant business this being the Capital City of Kenya.

### **3.4 Target Population**

According to Burns & Grove (1993) a population is defined as all elements, individual, objects and events that meet the sample criteria for inclusion in the study. My target population is 100 restaurant managers in Nairobi city who will receive the letter of introduction and questionnaires.

### **3.5 The Sample**

The sample frame is to be found at Nairobi County Council business registration office and looking at the hard and soft copy records of registered restaurant businesses. There are 6594 restaurants that are recorded, and in order to obtain the data in accordance with the research objectives, the criteria that was used is selecting Small Medium Restaurants was looking at small restaurants that have employed more than 10 and less than 50 and medium restaurants employed more than 50 and less than 100. Based on the considerations, we obtain a total of 232 small medium restaurants. Looked at the location of the restaurants 118 restaurants were in the Nairobi city.

Therefore Solvin Formula was used to determine the sample,

$$n = \frac{N}{1 + Ne^2}$$

Where;

n= sample size

N= population

e= 0.05 the percentage of allowance inaccuracy (precision) due to sampling errors.

### **3.6 Data Collection**

#### **3.6.1 Sources of Data**

Primary and secondary data will be used in this research to obtain data. Primary data is raw data collected in the study area while secondary data will be found in print materials related to the study.

#### **3.6.2 Data Collection Procedures**

Self administered questionnaires will be given through hand delivery or by mail to the sample frame for a period of time and then collected after the period of filling is over. Structured face to face interviews will be done also on the day of picking the questionnaires.

### **3.6.3 Instruments for Collecting Data**

Questionnaires will be used in this research to collect the data. A questionnaire is a self reported form designed to elicit information that can be obtained through the written response of the subjects. The questionnaires are developed to address the specific objective and research questions. The questions are structured and unstructured questions plus scale questions. Qualitative and quantitative statistics will be used to analyze the data.

### **3.6.4 Reliability Test for Data Collection Instrument**

Reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials (Polit & Hungler, 1993). Reliability in research is influenced by random error. A random error increases, reliability decreases. Random error is the deviation from true measurements due to factors that have not effectively been addressed by the researcher (Olive, 2003). Errors may arise from inaccurate coding, ambiguous instructions to the subjects, interviewer's fatigue, interviewee's fatigue and interviewer's biasness. Random error will always exist regardless of the procedure used in the study. In this research, the internal consistency technique will be used. The internal consistency of the data will be determined from a single test administered by the researcher to sample a subject. Here the score I will obtain in one item is correlated with scores obtained from other items in the instrument. Therefore I will use **Cronbach's Coefficient Alpha** in the computing to determine how items correlate among themselves.

### **3.6.5 Validity Test for Collection Instrument**

Validity is defined as the degree to which a test measures what it purports to measure. The test instrument that will be used in this study is a questionnaire. A questionnaire is said to be valid if it collects the information the researcher intends to obtain from the respondents. To ensure the validity of the survey instrument, it will be pilot tested before use in actual data collection (Creswell, 2009). The survey instrument will be pilot tested and the results from the pilot study will be used to remove any ambiguities, refine, and improve the data collection instruments in order to ensure higher levels of validity.

Variables used to measure EO are;



1. Innovation
2. Competitive aggressiveness
3. Risk taking

Variables used to measure performance

1. Sales
2. Profit
3. Employee

### **3.7 Data Analysis**

Descriptive statistics is to be used and data will be analyzed using statistical package in social sciences software (SPSS 21). This is data that is entered into the Excel Sheet, organized and cleaned for any inconsistencies. This model will meet the objectives of the research and organize data to be easily interpreted. Therefore bars, pie charts and graphs will be used to interpret the data.

### **3.8 Data Presentation**

The data will be presented and summarized using frequency distribution tables, pie charts and graphs that describe, organize, and summarize the data found.

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## **APPENDICES**

### **APPENDIX 1: LETTER OF INTRODUCTION.**

Brenda Rachel Asewe,  
Maseno University,  
P.O.Box Private Bag,  
Kisumu,  
Kenya.

Thursday 5<sup>th</sup> September, 2016.

**To Whom It May Concern.**

Dear Sir/ Madam,

**RE: REQUEST TO CARRY OUT ACADEMIC RESEARCH IN YOUR RESTAURANT.**

I am a postgraduate student at Maseno University pursuing a degree in Master of Business Administration. I am on my last year of my degree program doing a research project on the effect of entrepreneurial orientation on the performance of small medium restaurant businesses in Nairobi city. My research looks on three core variables used to measure entrepreneurial orientation which is innovation, competitive aggressiveness and risk taking and variables used to measure performance is sales, profit and employee.

I would like to assist me in carrying out the research giving you a questionnaire to fill which is attached to this letter that will assist me in carrying out the research. The questionnaire will be upheld with highest confidentiality and strictly used for the academic research and not for any other purpose. I will give you a one week period to fill in the questionnaire and therefore come to pick them personally.

Thank you so much for your assistance. Kind Regards,

Yours Faithfully,

**Brenda Rachel Asewe.**

## APENDIX 2: DATA COLLECTION TOOLS

### RESEARCH QUESTIONNAIRS

Please put a tick mark on the honest answers that relates to your restaurant.

#### Innovation Measures

Which statement best describes your restaurant when it comes to innovation

1.  a) In our restaurant we always keep our menu the same and seldom introduce new type of food to customers.  
 b) In our restaurant we actively introduce new types of food to customers.  
If you have ticked (b) how many times do you do it  
 Once a month  
 Once a year  
 Once every three months
2.  a) My restaurant does not update operation equipment and method.  
 b) My restaurant is creative in the method of operation and food process
3.  a) In my restaurant we only emphasize providing food to the customers without considering the creation of new experience  
 b) In my restaurant we keep providing customers with new dining experience.

#### Competitive Aggressiveness

1.  a) In my restaurant the price we offer is no cheaper than other restaurants with same quality of food provided.  
 b) In my restaurant we provide competitive price for meals and meanwhile guarantee food quality.
2.  a) We provide same service as other restaurant.  
 b) We differentiate our service to customers compared to other restaurants.

**Risk Taking**

1.  a) In my restaurant we seldom take the initiative to seek opportunities.  
 b) In my restaurant we emphasize exploration and experimentation of opportunities.
2.  a) In my restaurant we are not willing to take any risk even if it looks profitable.  
 b) In my restaurant we are willing to take the risk to introduce new things to our restaurant.

**Performance Measures.**

| <b>Y</b> | <b>2011</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> |
|----------|-------------|-------------|-------------|-------------|-------------|
| Sales    |             |             |             |             |             |
| Profit   |             |             |             |             |             |
| Employee |             |             |             |             |             |

### APPENDIX 3: RESEARCH PLAN

| <b>Activity Description</b>      | <b>April</b> | <b>August</b> | <b>September</b> | <b>October</b> |
|----------------------------------|--------------|---------------|------------------|----------------|
| Concept and proposal development |              |               |                  |                |
| Data Collection and analysis     |              |               |                  |                |
| Project Report Development       |              |               |                  |                |
| Submission of the Final write up |              |               |                  |                |



#### APPENDIX 4: RESEARCH BUDGET

| ITEM   | DETAILS                     |  | COSTS (KSHS)  |
|--|-----------------------------|--|---------------|
| Stationeries   | Typesetting                 | Final copy@100                                   | 1000          |
|  | Printing                    | Concept, Proposal,<br>Final@5000                 | 5000          |
|  | Photocopying                | Final paper @ 1000                               | 1000          |
|  | Binding                     | Final paper @500                                 | 500           |
|  | Markers pens                | 1 Marker pen @100                                | 100           |
| Personnel  | Field Assistant (s)         | Data collection @<br>Kshs.1000 for 10<br>days    | 10000         |
|  | Research Assistant          | Data entry @ 1000<br>for 1 person for 10<br>days | 10000         |
| Travelling,<br>Communications<br>and other<br>expenses | Transport (Researcher)      | Data collection @<br>400x10                      | 4000          |
|  | Transport (Field Assistant) | Data collection @<br>400x10                      | 4000          |
|  | Airtime (Field Assistant)   | Data collection @<br>50x10                       | 500           |
|  | Subsistence                 | Data collection @<br>200x10                      | 2000          |
|  | Contingencies               | Overall  | 4000          |
| <b>TOTAL</b>   |                             |  | <b>42,100</b> |