Entepreneurial Orientation and
Growth Nexus, a Case of South African Smes

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Abstract: SMEs continue to play a significant role globally. Sadly, there is concern of over the weak performance and the growth of SMEs in South Africa. The major purpose of this study was to evaluate the nexus between EO and growth of SMEs in South Africa. The survey technique was used to gather data through convenience sampling technique. The structural equation model approach was the primary data technique that was used for data analysis through the SmartPLS 3 software. The results of the study pertained to the four hypotheses that were postulated in the study. Of which, a significant positive relationship between EO and growth in employees, market share, and sales was established whereas profitability growth was not found to be significantly and positively related to EO. These findings have implications on the theory of EO and growth of SMEs. Important insights are poised by the findings pertaining to the role that EO plays in the success of SMEs contributing towards the quest of ensuring the survival of SMEs.

Keywords: employment; entrepreneurial orientation; growth; SMEs

JEL Classification: M1; M10; M13

1. Introduction

One of the key indicators of a well-functioning economy is the presence of a health and growing SMEs sector (Neneh & van Zyl, 2017). SMEs continue to play a significant role globally. Most developing countries have considered banking on the SME sector in search for solutions to curb the conundrums of unemployment, poverty and income inequality (Muritala, Awolaja & Bako, 2012). SMEs play a crucial role in overall economic performance as they are strongly involved in employment generating activities and value addition which augments economic growth (Rusu & Roman, 2017). In South Africa, the small business sector is highly regarded as the country is in the move to pursue an economic transformation. South Africa requires quality and growing SMEs not just an increase in the number of small

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businesses. Sadly, there is concern of over the weak performance and the growth of SMEs in South Africa. Neneh and Van Zyl (2014) assert that most SMEs in South Africa aim just to survive without much growth prospects.

An entrepreneurial orientation strategy (EO) can be a sustainable solution to the limited growth among SMEs. An EO strategy can allow SMEs to innovate, introduce new products and improve their growth and competitiveness. However, existing literature about the link between EO and growth of SMEs is inconclusive. Gurbuz and Aykol (2009) found a positive relationship between EO and growth. On the other hand, Moreno and Casillas (2008) and found no significant positive relationship between EO and firm growth. A study by Neneh (2016) also failed to establish any relationship between EO and growth of SMEs. These inconsistencies paint a bleak picture on whether EO can be a sustainable strategy to propel SMEs growth in South Africa or not. Hence, our study will contribute immensely towards resolving this conundrum and enriching academic debate within the field.

The major purpose of this study is to evaluate the nexus between EO and growth of SMEs using the Structural Equation Modelling (SEM). This advanced statistical tool has not been used by many studies with regards to the EO-growth nexus in South Africa. Existing studies tended to use descriptive statistics and simple linear regressions which makes most of their results less dependable. Hence, our approach on this paper will allow us to generate new empirical findings and also contribute theoretically to the body of knowledge. The novelty of this paper is based on the fact that it has been written on the time when South Africa is just coming from a recession and seriously searching for sustainable solutions such as growth-oriented SMEs to resuscitate the ailing economy.

To achieve our objectives, we structured the paper as follows; the first section which the introduction outlining, the second section covers the theoretical framework and empirical literature after which the methodology is outlined. Thereafter, the results and discussion section will follow and the last section will be conclusion.

Literature Review

Entrepreneurial Orientation Theory

Since its introduction into the field of strategy, EO has been adopted widely as its proponents point to momentous benefits which comes with the adoption thereof. The term has been defined differently by various authors making it difficult to come up with a common definition. Rauch, Wiklund, Lumpkin and Frese (2009) describe EO as the strategy making processes enables firms to make entrepreneurial decisions. An EO strategy is defined as an entrepreneurial mindset adopted by firms which gives them the ability to innovate and be market leaders (Covin & Wales, 2011). Authors such as Miller (1983) are acknowledged as the pioneers of EO where they

defined it in terms of innovativeness, proactiveness and risk taking. Another strand of authors such as Lumpkin and Dess (1996) proposed that the EO should be improved by incorporating competitive aggressiveness and autonomy on the three measures proposed by Miller. Recently, some authors have suggested that innovatiness and proactiveness on Miller's (1983) scale should be combined to form a new construct called proactive innovation (Ngek & Smit, 2017). For the purpose of this study, Miller's (1983) scale was used. This scale has been used widely in existing literature. On that note, our approach is to combine the EO measures (proactiveness, innovativeness and risk taking) as uni-demensional measure of EO. The reasoning behind using the uni-dimensional approach is that these factors overlap and work well when the firm integrates them in their strategy. In agreement, Rauch et al. (2009) explicate that EO items can be combined into one single factor (unidimensional) because they are highly inter-correlated with each other.

Growth and Growth Theories

Globally, policy makers are interested in high growth-oriented SMEs because it is through growth that the desired jobs are created. Growth has been defined differently in existing literature. According to Insah, Mumuni and Bangniyel (2013), both qualitative and quantitive criteria can be used to measure growth. A study by Rusu and Roman (2017) used employment growth and value added to measure growth. A plethora of studies agree that growth is generally an increase in size of a business which is attained through increase in sales, market share, return on investment, profitability, value added, employment growth and geographical expansion among others (Gupta, Guha & Krishnaswami, 2013).

In explicating a theoretical background for growth of firms, Churchill and Lewis (1983) postulate that growth in firms assumes five stages which are; existence, survival, success, take-off and resource maturity. According to Churchill and Lewis (1983), at the existence stage, the entrepreneur is still struggling to put the business together and there are no formal structures and systems in the business. At the survival stage, the entrepreneur injects more resources in the business but with a sole aim to breakeven and remain in business. At the success stage the entrepreneur is doing well and the business starts to make enough profits. It is also a point where opportunities for expansion start to emerge. At take-off, the business is financially strong and can afford to expand into other geographical locations and expanding its operations until it reaches resource maturity where it becomes a well-established business.

EO and Growth Nexus

SMEs within the Johannesburg central business district operates in a highly competitive environment with established businesses and foreign firms. The authors of this study believe that, these SMEs can attain the desired growth and remain

competitive by Adopting EO. The authors deemed it necessary to scrutinize this group of SMEs operating under competitive conditions as their response to the EO strategy might be different from those operating under benign conditions such as those in rural areas. Campos and Valenzuela (2013) assert that SMEs need to acquire entrepreneurial orientation if they are to survive fierce competition from large established firms. Similarly, Fairoz, Hirobumi and Tanaka (2010) advice that the current dynamic, global and competition infested business environment requires SMEs to employ EO to survive and grow. Accordingly, Basardien (2011), alludes that the EO strategy is based on the notion that firms with higher levels of EO are more likely to experience higher levels of performance and growth. Soininen (2013) points out that the smallness nature of SMEs makes them flexible enough to accommodate the EO initiative. Baran and Velickaite (2008) report that entrepreneurial orientation equips a business to attain development and growth which result in a sustainable competitive advantage. Muchiri and McMurray (2015) note that firms that invest on entrepreneurial orientation perform much better when compared to their counterparts that do not adopt EO. Another strand of literature indicates that EO enables a firm to be adaptive to the external environment by swiftly changing its internal programmes to suit the environmental demands (Shahraki & Bahraini, 2013).

3.1. EO and Increase in Growth of Employees

Musa, Ghani and Ahmad (2011) remark that firms that continuously innovate and offer new products attracts and retain more customers. Gurbuz and Ayko (2009) reasons that EO elements such as proactiveness can allow a firm to attain first mover advantages in the market, allowing it to expand its business rapidly in terms of the number of employees among others. Based on the above discussion, the hypothesis is stated as;

H_1, there is a significant positive relationship between EO and growth in employees.

3.2. EO and Increase in Market Share

According to Fairoz *et al.* (2010), EO enables SMEs to stay ahead of competitors, hence increasing market share. Firms that employ EO are likely to enjoy extended product life cycles as well as an increased market share through finding better and innovative ways to market their product lines. Furthermore, EO enables firms to attain growth through increased market share by assisting them to identify new opportunities and gaps which they can exploit through risk taking, developing innovative products, and proactively positioning their products.

H_2, there is a significant positive relationship between EO and increase in market share.

3.3. EO and Sales Growth

Miller (2011) found out that EO yields tangible benefits to firms such as sales growth and return on investments and intangible benefits such as satisfaction with the firm, information acquisition and global success ratings made by owners or business managers. Existing studies such as Calvo (2006) and Deschryvere (2014) found innovativeness to be positively related to sales growth. Based on the above literature, the hypothesis can be stated as;

H₃, there is a significant positive relationship between EO and sales growth.

3.4. EO and Profitability

Existing literature indicates that an EO strategy can generate profits for both new startups or existing SMEs (Żur, 2013). An EO strategy is widely adopted for its ability to improve a firm's profitability (Neneh, Van Zyl & Van Noordwyk, 2016). Likewise, Jalali et al. (2014) found a significant positive relationship between risk taking and firm profitability. Based on the principle of high risk-high return, SMEs which have high appetite for high risk-high return projects are likely to be profitable by tapping into markets which are less congested by competitors. Based on the above literature, the hypothesis can be stated as;

H₄, there is a significant positive relationship between EO and profitability.

4. Methodology

The study followed a positivist research philosophy. Rahi (2017) asserts that the positivism approach is centred on the scientific approach which believes that natural science can be applied to social sciences as well to make generalisations. The deductive approach was deemed appropriate for this study since the researcher intended to test the applicability of the EO strategy in propelling growth among SMEs. The study area was Johannesburg Central Business district, Gauteng province. Johannesburg Central Business district was chosen because it is the economic hub of the country and that is where most SMEs are found. Additionally, SMEs found in this study area exposed to intense competition, hence, our consideration for them to adopt EO to survive the stiff competition and grow. Data was collected using a questionnaire in a survey. The questionnaire consisted of 3 sections; section A consisted of demographic questions, section B consisted of EO questions and section C constituted questions related to growth. EO was measured using a scale developed by Miller (1983). The scale includes 7 items which measure innovativeness, risk taking and proactiveness. Growth was measured using 4 constructs, namely, number of employees, sales, market share and profitability. The questionnaires were hand delivered to the respondents. The convenience sampling technique was used to draw the respondents from the targeted population.

Convenience sampling technique was used because of the difficulty in obtaining the sampling frame for entrepreneurs in the study area. Data was analysed using structural equation modelling (SEM) using the SmartPLS 3 software.

5. Results and Discussions

A sample size of 212 SMEs was considered and the sample was deemed sufficient enough to improve the quality of the results. The resultant 212 sample size constitutes a response rate of 47% following an initial 450 questionnaires distributed in the survey. Primarily, participants in the survey were males (59%), aged between 31 to 40 years (37.7%), as well as, the owners of the businesses (54.2%). Furthermore, the majority of the sampled businesses employed 5 workers and less (38.7%), and belonged to the retailing industry sector (27.4%).

5.1. Measurement Model

Firstly, the measurement of validity and reliability are assessed in the study to ascertain internal consistency. To determine reliability Cronbach's alpha coefficient (CRα) and composite reliability (CR) were utilised. As illustrated in Table 1, all the values of CRα and CR ranged between 0.716 and 0.997 indicating that the minimum requirement of 0.70 for both values was attained in this study to satisfy internal consistency (Nunnally & Bernstein, 1994). Secondly, construct validity was ascertained through convergent and discriminant validity and average variance extracted (AVE) and standardized factor loadings (SFLs) were ascertained for convergent validity. The AVE and SFLs are evaluated based on the minimum 0.50 for satisfactory internal consistency (Anderson & Gerbing, 1988). The scores for AVE were all above the recommended 0.50 except for the sales growth construct which was slightly below this value. On the other hand, the majority of the SFLs values were above the recommended 0.50 as shown in Table 1. This indicates satisfactory internal consistency in terms of convergent validity in the study (Byrne, 2001).

Table 1. Assessment for unidimensionality, reliability and validity

Construct	Item	SFLs	CRα	Rho_A	CR	AVE
1. Entrepreneurial Orientation	eo1	0.782	0.848	0.865	0.884	0.524
	eo2	0.754				
	eo3	0.702				
	eo4	0.769				
	eo5	0.735				
	eo6	0.547				
	eo7	0.750				
	e1	0.924	0.904	0.920	0.934	0.779

2. Employee Growth	e2	0.939				
	e3	0.895				
	e4	0.762				
3.Market Share Growth	m1	0.486	0.716	0.736	0.828	0.556
	m2	0.813				
	m3	0.849				
	m4	0.778				
4. Sales Growth	s1	0.630	0.747	0.717	0.816	0.471
	s2	0.728				
	s3	0.751				
	s4	0.665				
	s5	0.650				
5. Profitability	pr1	0.814	0.903	0.997	0.929	0.766
	pr2	0.887				
	pr3	0.896				
	pr4	0.903				

Discriminant validity was measured using the square root of average variance extracted (Square root of AVE) for each construct. As presented in Table 2 below, the square roots of AVE for all the four research constructs exceeded the respective constructs correlation values as required to satisfy discriminant validity. The square roots of AVE (presented in bold and italics in table 2) ranged between 0.687 and 0.883 whilst inter-construct correlations ranged between -0.233 and 0.670 (Byrne, 2001). Thus, this attests to the presence of divergent validity in the present study.

Table 2. Discriminant validity

Notes: Square roots of AVE are presented in bold and italics

Construct	Inter-Construct Correlation Matrix & Square root AVE				
	1	2	3	4	5
1. Entrepreneurial Orientation	*0.724*				
2.Employee Growth	0,39	*0.883*			
3. Market Share Growth	0.291	0.030	*0.746*		
4. Sales Growth	0.264	0.333	0.286	*0.687*	
5. Profitability	0.128	-0.233	0.670	0.190	*0.875*

5.2. Structural Model

Structural model pertains to the analysis of the relationships between the latent variables and in this SmartPLS 3 was utilised which utilises a partial least squares approach (PLS). Figure 1 illustrates the structural model whilst the results of path analysis are further illustrated in Table 3.
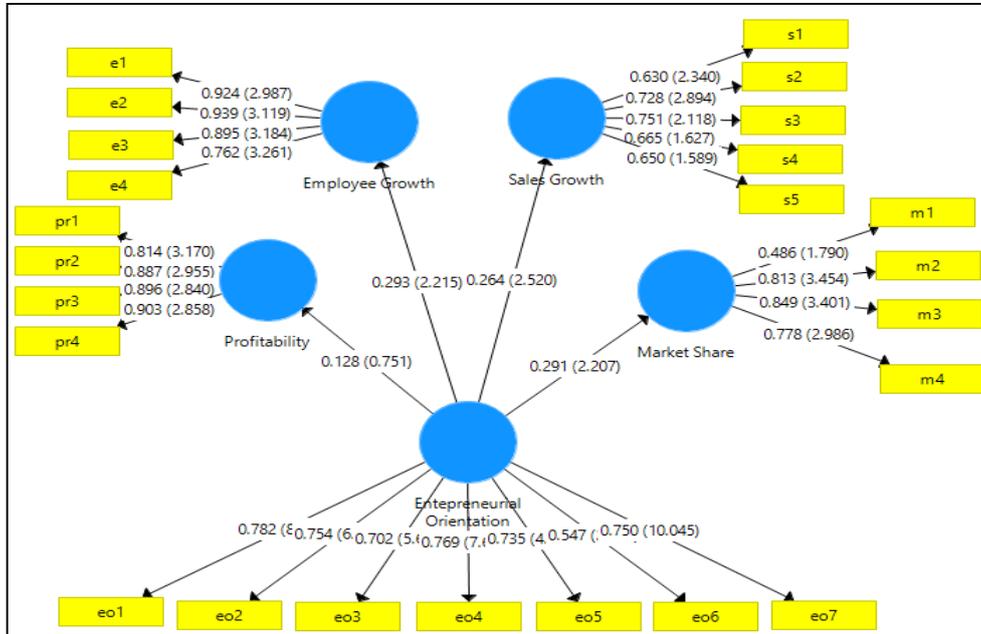
Figure 1. Structural model

The results of structural model indicate that out of the four hypothesized relationships, three of them were supported and only one was not supported. The first path hypothesis which pertained to a positive and significant relationship between EO and growth in employees had a 0.293 path coefficient and a t-static of 2.138. The second hypothesis which purported a significant positive relationship between EO and increase in market share had a path coefficient of 0.291 and a t-static of 2.129. Furthermore, the path coefficient for the third hypothesis which envisaged that there is a significant positive relationship between EO and sales growth was 0.264 with the t-static being 2.608. Herein, these three hypotheses (H1-H3) were supported as the rule of thumb requires that the t-statistic should be greater than 1.96 as also attested by the p-values that were $p < 0.05$ (Hair, Hult, Ringle & Sarstedt, 2014). However, according to this rule of thumb the remaining hypothesis four which postulated that there is a significant positive relationship between EO and profitability was not supported due to a low path coefficient and t-statistic (β=0.128; t=0.718) as attested by an insignificant p-value of 0.473.

Table 3. Results of path analysis

Path		Hypothesis	Path Coefficient(*β)*	T Statistic	P-value	Decision
EO →	EG	H1	0.293	2.138	0.033	Supported
EO →	MS	H2	0.291	2.129	0.034	Supported
EO →	SG	H3	0.264	2.608	0.009	Supported
EO →	PRO	H4	0.128	0.718	0.473	Not supported

Notes: EO, entrepreneurial orientation; EG, employee growth; MS, market share; SG, sales growth; PR, profitability

6. Conclusion

This study focuses on EO as an antidote to the growth of SMEs with a focus on South African SMEs that are faced with a myriad of challenges. Growth of SMEs, which has been a challenge for many governments over the years, is in this study operationalised at the hand of four constructs, namely increase in; employees, market share, sales and profitability. The study established that entrepreneurial orientation was significantly and positively related to growth in employees, market share as well as sales. These finding supported related previous studies (Jalali et al., 2014; Deschryvere, 2014; Baran & Velickaite, 2008) that established that factors of EO influence growth aspects. However, the relationship between EO and profitability growth was not established in this study. These findings have implications on managerial practices and contribute towards theory by highlighting the role that EO plays broadly in the growth of SMEs. Thus, it is essential to play and develop the level of EO amongst start-up SMEs if growth and development are to be achieved. This has far reaching effects on economic growth and calls for government to enshrine the EO in the society. Future studies need to determine the extent to which EO in different countries and localities have an impact on the relationship between EO and growth of SMEs.

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