THE EFFECT OF ENTREPRENEURIAL ORIENTATION ON THE GROWTH OF MICROFINANCE INSTITUTIONS BASED IN NAIROBI, KENYA

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ABSTRACT

Entrepreneurial orientation (EO) comprises of strategies that enable firms to keep up with the contemporary business complexities by engaging in risky, proactive and innovative activities. Kenya’s vision 2030 considers MFIs as very instrumental in addressing financial exclusion among the economically active population. MFIs have the most flexible and effective strategies of fighting poverty yet they reach only a small percentage of the potential market. They are also known to have a high mortality rate and therefore it would be beneficial to adopt an entrepreneurial strategy that enables them to pursue entrepreneurial opportunities that will lead to increased growth and stability. This study sought to examine the effect of EO dimensions on the growth of MFIs based in Nairobi. It employed mixed research design approach involving the application of both qualitative and quantitative research techniques. The target population consisted of 59 regulated MFIs based in Nairobi. Data was collected from the entire target population making use of a census inquiry. Primary data was collected by use of questionnaires with both open ended and close ended questions as well as structured interview guide which were administered on managers/owners of MFIs. SPSS (version 21) was used to analyze data; inferential statistics such as ANOVA was used to test the significance of the overall model at 95% level of confidence. The study established that the predictor variables were strong determinants of the growth of MFIs. It recommends the utilization of EO dimensions so as to take advantage of the large unexploited market in the provision of financial services. The study contributes to increased knowledge on MFIs and EO which may build on evidence based policy on financial inclusion.

Key words: Entrepreneurial orientation dimensions, Microfinance institutions, Firm growth.

INTRODUCTION

This study focused on regulated microfinance institutions (MFIs) classified as credits only, Microfinance banks and commercial banks. They have some governance structures and reporting
procedures which were useful to the researcher. There is a great challenge of lack of available
data on MFIs for this reason the focus was mainly on the registered members of Association of
microfinance institutions (AMFI) which is an acceptable representation of the MF sector. The
general objective is to examine the effect of entrepreneurial orientation (EO) on the growth of
MFIs based in Nairobi, Kenya. The implementation of EO is viewed from the managerial
perspectives at the organization level.

Entrepreneurial orientation (EO) is the strategic posture characterized by a firm’s engagement in
relatively high levels of risk taking, proactivity and a propensity to develop and introduce new
product innovation (Miller, 1993). This is applicable at the organization level of Microfinance
institutions (MFIs) as a strategy making process that provide them with a basis for
entrepreneurial decisions and actions (Lumpkin & Dess, 1996; Wiklund & Shepherd, 2003;
Rauch, 2009). EO is regarded as a key ingredient for organizational success (Lumpkin & Dess,
1996) and has been found to lead to higher performance. The key issue that MFIs are addressing
is that of providing microfinance in a profitable and sustainable manner.

The application of EO at the organization level is therefore likely to lead to organizational
success (Lumpkin & Dess, 2005) and to higher performance (Zahra & Covin, 1995; Wiklund &
Shepherd, 2005). EO is also regarded as the strategy making practice that businesses use to
identify and launch corporate ventures. Globally microfinance has become a worldwide
movement with new ideas and with different types of products and services. It has shown a
gradual shift towards commercialization. There is a continuous improvement of the global
business environment for microfinance. The use of mobile banking services and financial agents
has contributed greatly to a more efficient service delivery (Microscope, 2012). Kenya has
become a worldwide leader and pioneer of mobile banking services. Reports show that by
December 2011 over 1/3 of the population (about 14.9 m) use money transfer service. The use of
phones and the development of agent banking have transformed the financial sector and Kenya is
listed among the world’s largest microfinance markets (MF outlook, 2016).

Organizations can be looked at from the perspective of their EO. They can be identified by how
many entrepreneurial things they engage in terms of risk taking, innovation, proactiveness and
aggressiveness in the market place. This study finds the utilization of EO strategies important
since the potential for growth across microfinance markets is vast as financial exclusion remains widespread and there is a large gap between developing and developed countries (MF outlook, 2015). MFIs contribute to the development of a functioning financial sector where access to financing enables customers to expand their businesses, contribute to economic growth, offer a variety of products and services and create jobs. The ongoing technological revolution enables MFIs to access micro entrepreneurs in the hard to reach areas so that they are able to grow their businesses. This requires a market place leader that has a foresight to seize opportunities and provide sustainable products in an ever growing market.

STATEMENT OF THE PROBLEM

Despite the impressive growth experienced by microfinance industry for longer than a decade now, it reaches only a small percentage of its potential market worldwide (Ledgerwood & White, 2006). MFIs have high mortality rates with most of them not surviving to see beyond their third anniversaries (GoK, 2005). The collapse ratio of MFIs is alarming for developing countries as well as developed countries (Kuratko & Hodgetts, 2004). Despite the recognized social benefits of MFIs, the sector faces the challenge of operating as profitable social enterprises (Manderlier, 2009). It is therefore crucial for MFIs to adapt strategies that can lead to growth and stability in their endeavor to provide financial services to the broad potential market in a sustainable way.

This study sought to examine some of the entrepreneurial strategies MFIs based in Nairobi are implementing to take advantage of the existing market opportunities and enhance sustainable financial inclusion service to the unbanked populations. It focused on the effect of EO dimensions on the growth of MFIs based in Nairobi which recorded a 5.4% increase in the new jobs created in 2015 (GoK, 2014). The demand from donor organizations to incorporate sustainability principles in undertaking the social mission has lead to the utilization of entrepreneurial strategies in their operations. In Kenya, nine credits only institutions have transformed to Deposit taking microfinance institutions, now known as microfinance banks (MFB) in the last ten years.

Globally the microfinance industry is expected to grow at the rate of 10 – 15% with higher prospects for markets in Asia Pacific and Sub Saharan Africa which are expected to register above average growth (Market outlook, 2016). The industry is transforming into commercial
stage with an interest in running operations in view of triple bottom line (Rhyne & Otero, 2006). Despite the increase in the percentage of the population accessing financial services in Kenya, 25.4% of adult population still remains financially excluded and only 32.7% have access to formal financing (FSD, Kenya 2014b). Past empirical studies have focused on EO in other sectors and commercial banks but little research on MFIs. This study sought to bridge the gap and explore whether lack of EO among the MFIs account for the large unexploited market especially among the low income segment of the population.

GENERAL OBJECTIVE

The general objective of the study is to examine the effect of entrepreneurial orientation dimensions on the growth of microfinance institutions based in Nairobi, Kenya.

Specific objectives
1. To analyze the effect of risk taking propensity on the growth of microfinance institutions.
2. To examine the effect of proactiveness on the growth of microfinance institutions.
3. To examine the effect of autonomy on the growth of microfinance institutions.

LITERATURE REVIEW

Risk taking
Risk taking is the act of making decisions and taking action without certain knowledge of probable outcomes. Some undertakings may also involve making substantial resource commitments in the process of venturing forward (Covin & Wales, 2012). Although the concepts of risk and risk taking has attracted increasing attention in the entrepreneurship research field (Zahra, 2004), only few studies have been executed in the small firm context. The findings arising from these studies sometimes are inconsistent, occasionally even contradicting. They indicate that founders are often good at recognizing and exploiting opportunities in the market. They are able to organize and reconfigure resources available to achieve competitive advantages and such family firms can sustain their entrepreneurial capacity through nurturing young generations and continuously engaging in entrepreneurial ventures (Aldrich & Cliff, 2003; Zahra, 2004). On the other hand, family firms are conventionally portrayed as inward looking, conservative and resistance to change (Young 2009).
Literature review on risk taking identifies several variables that may influence entrepreneurial risk taking. These variables include entrepreneur-related parameters, such as owner-manager’s educational background, industrial tenure and age and family related factors such as ownership stakes and controlling generation in the family. Venturing activities are also identified in relation to family control. For instance, the founder of family business for the purpose of nurturing the young generation may encourage the potential successors to launch a new business. In the long run, the business may benefit from this human capital investment. Baker & Sinkula (2009) view risk taking as the willingness to commit large amounts of resources to a project which the probable cost and chances of failure are high.

It is the inability of the poor to access formal credit that led to the emergence of MFIs. Karlan & Murdoch (2010) posit that money is advanced to the uncollateralized but is held under joint liability. The joint liability is an aspect of distributing the risk and therefore lowering the level of risk to the financial provider. The owner-manager's influence upon business strategies and development process is often stable and long-lasting. The literature acknowledges the influential position of owner-managers (Anderson & Reeb, 2003; Sharma, 2004) on business culture, organizational values, and beliefs.

**Proactiveness**

Proactiveness is a forward looking perspective characteristic of a market place leader that has a foresight to seize opportunities in anticipation of further demands (Covin & Wales, 2012). Proactiveness as captured in this definition borrows from the early work on entrepreneurship that entrepreneurial efforts require initiative. Nelson and winter (1982) posit that proactiveness is an attempt to prepare for the future by seeking new opportunities which may or may not be related to the present line of operations. It may involve introduction of new products and brands ahead of competition, strategically eliminating operations which are in the mature or declining stages of life cycle. Hughes and Morgan (2007) suggest that a firm’s proactiveness is demonstrated by its awareness of and responsiveness to market signals. Firms attempt to discover future opportunities, even when these opportunities may be somewhat unrelated to existing operations.

Proactive firms identify and exploit opportunities to meet demand, possibly through their own innovation, adopting existing products, services, or practices; or entering new markets with
existing products, services, or products. They may be concerned with the search for and seizure of future opportunities. Hughes and Morgan (2007) regard proactiveness as a critical factor at the early stages of firm growth that enables it to secure a position in the market place and ensure long term prosperity. MFIs in Kenya provide financial services to poor and middle income families (RoK, 2014), which is a market that has unmet demand. The MFIs have emerged as market place leaders with the foresight to seize opportunities and offer products suitable to their customers.

Proactive organizations monitor trends, identify the future needs of existing customers and anticipate changes in demand or emerging problems that can lead to new venture opportunities. Strategic managers who practice proactiveness target the future in a search for new possibilities for growth and development. This forward looking perspective is important for companies that seek to be successful in a dynamic environment. Tang (2013) observes that proactive entrepreneurs enhance their interactions with the external environment such as business related institutions and social network through opportunity seeking and forward looking capabilities. MFIs in Kenya can enjoy first mover advantage because majority of the economically active poor are still unreached with efficient financial services. They would benefit by being industry pioneers and have advantages that can be sustained until firms enter the maturity phase of an industry life cycle (Chen & Macmillan, 2002).

**Autonomy**

Autonomy from an EO perspective refers to strategic autonomy, which enables teams to not only solve problems but to define the problem and goals that will be met in order to solve the problem (Lumpkin & Dess, 2009). Entrepreneurial autonomy from a managerial perspective may be regarded as actions by an individual or team aimed at bringing forth a business concept or vision and carrying it through to completion (Covin & Slevin, 2012). The role of managers/ owners is evident through the entrepreneurial processes of the organization when new projects are started. They provide support for experimentation and allocate resources for entrepreneurial development to ensure success of the new project.

Lumpkin and Dess (1996), argue that an independent spirit is necessary for entrepreneurship. Autonomy refers to independent action in terms of bringing forth an idea or a vision and carrying it through to completion, including the concept of free and independent action and decision
taken. This study looks at autonomy from an entrepreneurial perspective where the employees and the owner/manager can exercise independent thought and action in favor of the firm. It examines the employee’s authority and responsibility in decision making and the owner/manager’s involvement of the employees in decision making. This is consistent with the concept of EO according to (Lumpkin & Dess, 1996), view that autonomy involves decisive decision making where a vision is driven to implementation through individual leadership. It is also consistent with the view that it is individual autonomy that enables entrepreneurial activities and decision making at a lower level of enterprise.

The review of theories relating to autonomy show that levels of autonomy may differ as a function of size and management style of ownership. Lumpkin and Dess (1996:141) posit that in a firm where the primary decision maker is the owner/manager, autonomy is implied by the right of ownership. This study looks at the level of autonomy from the perspective of the owner/manager who makes decisions in regard to entrepreneurial activities that a firm will engage. This is consistent with Lumpkin & Dess, (1996), a tendency toward independent and autonomous action is a key component of an entrepreneurial orientation since intentionality must be exercised.

Even though the rate of financial inclusion has progressed rapidly in the recent period, financial exclusion remains widespread (MF outlook, 2016). In the Sub-Saharan Africa, Kenya and Ghana are listed among the world’s largest microfinance markets. This brings the argument that microfinance market environment in Kenya can be classified as benign where the demand is growing for the products and services offered by MFIs. Covin and Slevin (1989) established that benign environments provide safe settings for business operations in the industry and create wide range of business opportunities for the firms. In benign environments, firms with conservative strategic posture achieve better performance indicators and the relationship between EO and firm performance may be weaker or negative. The MF sector may be described as operating in a benign environment yet with challenges of changing nature of clients demand and the strict regulatory structure.

**RESEARCH METHODOLOGY**

Mixed research design approach involving the application of both qualitative and quantitative research techniques was used. The research design allows the researcher to compensate for the weakness of one single approach with the strength of the other in order to achieve the best results.
Qualitative approach as a design technique is useful in giving measures that produce quantifiable data (Kothari, 2007). To collect primary data, a set of questionnaires and structured interviews were administered to managers/owners of the MFIs. Secondary data was extracted from historical reports such as institutions audited financial reports for financial years between 2011-2014 and other institutional management reports to justify and augment the data collected through questionnaires.

### Regression analysis

A linear multiple regression analysis was conducted to examine the effect of EO dimensions on the growth of microfinance institutions.

\[
Y_s = \beta_0 + B_1X_1 + B_2X_2 + B_3X_3 + \epsilon
\]

Where,

- \(Y_s\) = Growth of MFIs, the dependent variable,
- \(\beta_0\) is the constant (coefficient of intercept),
- \(B_1\) to \(B_3\) = regression coefficients of five variables which are the independent variables; \(X_1\) is Risk taking Propensity, \(X_2\) is Proactiveness, \(X_3\) is Autonomy and \(\epsilon\) is an error term normally distributed about a mean of 0. The equation was solved by the use of SPSS version 21 (Statistical Package for social sciences).

Table 1 below; show that the coefficient of determination \(R^2\) is 67.3%. This means that the combined influence of the predictor variables (risk taking propensity, pro-activeness, and autonomy) explains 67.3% of the variations in growth of MFIs. This further shows that there are other variables that explain the variations in growth of MFIs to explain the remainder 32.7%.

### Table 1: Coefficient of determination (R²)

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.779</td>
<td>.673</td>
<td>.664</td>
<td>.1764</td>
</tr>
</tbody>
</table>

Analysis of variance (ANOVA) on Table 2 show that the combined effect of risk taking propensity, pro-activeness and autonomy was statistically significant in explaining changes in
growth of MFIs. This is demonstrated by a p value of 0.014 which is less than the acceptance critical value of 0.05.

Table 2: ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>42.75</td>
<td>3</td>
<td>8.55</td>
<td>8.64051973</td>
<td>0.014</td>
</tr>
<tr>
<td>Residual</td>
<td>41.56</td>
<td>42</td>
<td>0.9895238</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>84.31</td>
<td>47</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 3 displays the regression coefficients of the independent variables. The results reveal that independent variables were positively and statistically significant in explaining the growth of MFIs. These imply that all the independent variables were strong determinants of growth of MFIs.

Table 3: Multiple regression analysis

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
</tr>
<tr>
<td>(Constant)</td>
<td>2.144</td>
<td>2.295</td>
<td>1.063</td>
</tr>
<tr>
<td>Risk Taking Propensity</td>
<td>1.113</td>
<td>.254</td>
<td>1.100</td>
</tr>
<tr>
<td>Pro-Activeness</td>
<td>1.012</td>
<td>.189</td>
<td>1.012</td>
</tr>
<tr>
<td>Autonomy</td>
<td>1.201</td>
<td>.177</td>
<td>1.225</td>
</tr>
</tbody>
</table>

DISCUSSION AND FINDINGS
An increase in the effectiveness of risk taking by one unit leads to an increase in growth of MFIs by 1.113 units. Majority of the respondents (68%) were between 31-50 years, in agreement with other studies that young entrepreneurs tend to make accomplishments through entrepreneurial venturing (Kyereboah-Coleman, 2007). MFIs level of risk taking is viewed as the willingness to commit resources to a project where the probable cost and chances of failure are high (Baker & Sinkula, 2009). It involves venturing into the unknown and new markets ( Wiklund & Shepherd,
2005) which is in line with MFIs path of growth that involves providing credit to those considered vulnerable.

An increase in the effectiveness of proactiveness by one unit leads to an increase in growth of MFIs by 1.012 units. Entrepreneurial proactiveness has been evident in the last decade through MFIs transformational process. Similar findings by Wiklund & Shepherd, (2005); Cruz & Nordqvist, (2012) that proactiveness raises a firm’s receptiveness to market signals and responsiveness to customer needs due to their sensitivity to market signals. Hughes & Morgan (2009) acknowledge that proactiveness is a critical factor at the nascent stages of a firm growth. A firm is able to secure its chosen market place to gain longer term prosperity. Its proactiveness is demonstrated by its awareness of and responsiveness to market signals. This is in agreement with MFIs examined which showed proactivity and high level of future planning.

An increase in the effectiveness of autonomy by one unit leads to an increase in growth of MFIs by 1.201 units. Autonomy from an EO perspective refers to strategic autonomy (Lumpkin & Dess, 2011); the ability of teams to solve problems, define them and find goals that will be met in order to solve the problem. The study established that managers have authority and responsibility to act alone if they think it is in the interest of the firm which had the highest mean of 3.45 and standard deviation of 0.7133. Individual leadership in the implementation of decisions in regard to business opportunities that the firms pursue was recognized.

Managers are faced on a day to day basis with the challenge of making strategic decisions and sometimes they may involve reorganizing work in their departments to stimulate entrepreneurial initiatives. The findings are in support of findings by Pfeiffer & Sutton, (2006) that autonomy may be established through skunk works to encourage independent thought and action. New project ideas which have strategic and economic impact however need the support of senior managers who have experience with similar projects.
RESEARCH SUMMARY

The combined influence of predictor variables explains 67.3% of the variation in growth of MFIs. This is an indication that other variables (33.7%) also contribute to the growth of MFIs. The combined effect of EO dimensions is positively and statistically significant in explaining the changes in the growth of MFIs. The results correspond with other empirical studies (Wiklund & Shepherd; Nguyen & Ng, 2007; Li, Huang & Tsai, 2009) that showed a positive effect on firm growth. The independent variables are strong determinants of MFIs growth. For the MF sector to stay ahead of competitors in a dynamic and competitive environment, they have to engage in entrepreneurial strategies at firm level (Covin & Slevin, 2005).

However, MF outlook (2016) notes that from a structural perspective, the potential for growth across most MF market is vast as financial exclusion remain widespread. There is still a large gap especially between developing and developed countries. The Microfinance sector report (2013) show that there is a high degree of concentration as the number of players is still low and the fastest growing firms are able to acquire the relevant market share. This study supports the same findings that MFIs need to utilize EO dimensions for strategic growth as the results indicate a positive effect on the growth of MFIs.

This study utilized managerial perceptions in measuring the EO dimensions and affirms that each sub-dimension of EO offers unique advantages to the entrepreneurial process. It confirms that entrepreneurial firms with high levels of EO have the ability to identify and seize opportunities in the market place. MFIs can take advantage of the vast financial exclusion and become industry pioneers. They contribute to the economy of the country by providing financial services to low income customers including the self employed in business, small holder farmers and artisans. The utilization of EO dimensions will enable MFIs to meet the needs of their customers which are evolving rapidly and taking advantage of the fast growing financial sector.

RECOMMENDATIONS

The study recommends that utilization of entrepreneurial orientation dimensions could lead to improved growth of MFIs. The management can develop internal strategic measures that will promote innovation, proactiveness and autonomy in the management practices. The management can encourage moderate risk-taking, proactiveness and also encourage autonomous groups to empower and motivate the employees.
Through proactiveness, MFIs will be able to continually monitor the market so as to identify emerging needs and be first movers in such markets. Developing an autonomy posture will involve encouraging independent and creative thinking among staff and also fostering a culture of rewards. Risk-taking posture in these firms can be facilitated by carefully funding projects that may look risky but have prospects of large rewards and also funding new ideas, products and services with a view of entering into new markets.

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