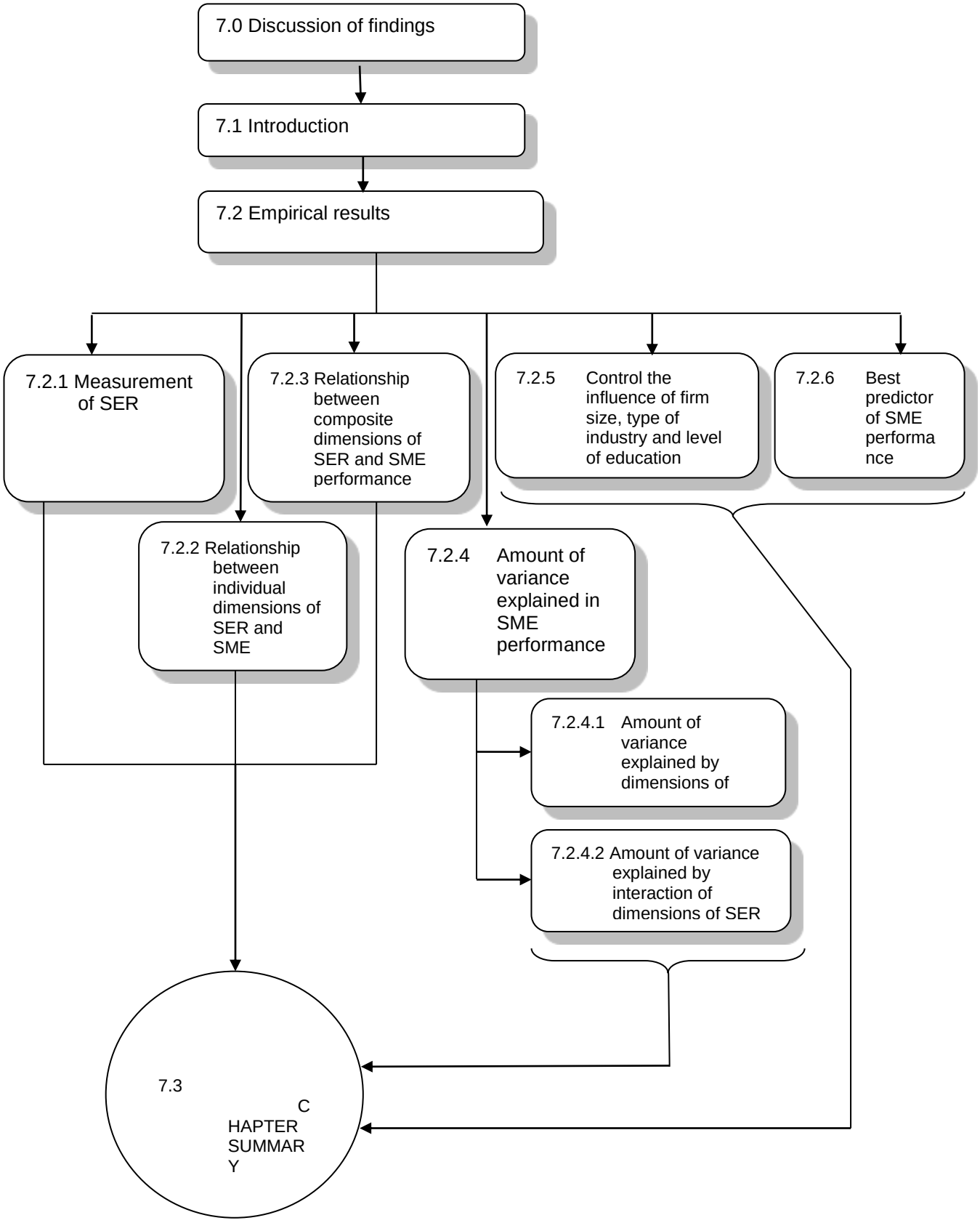
CHAPTER LAYOUT – CHAPTER SEVEN



CHAPTER SEVEN

7 DISCUSSION OF FINDINGS

7.1 INTRODUCTION

This study was scheduled to answer the following research questions:

1. Does the individual dimension of market orientation, entrepreneurial orientation and networking capability successfully measure strategic entrepreneurial response (SER)?

2. (i) Is there any relationship between the individual dimensions of SER and SME performance? (ii) If yes, do the composite dimensions of SER present a similar nature of relationship with SME performance?

3. How much variance in SME performance is explained by scores of the composite dimensions of SER?

4. Is there an interactive relationship amongst the composite dimensions of SER? And do these interactions explain a significant amount of variance in the SME performance?

5. If the demographic variables, such as the firm size, type of industry, and level of education of the owners/managers are controlled, is the three composite dimensions of SER, namely: market orientation, entrepreneurial orientation, and networking capability still able to explain a significant amount of variance in SME performance?

6. What is the best predictor to explain SME performance amongst the three composite dimensions of SER: market orientation, entrepreneurial orientation, or networking capability?

Responding to these questions, a review of relevant literature was necessary to examine what has been reported and identify a research gap and a justification for this study. The literature review is presented in three chapters, namely chapter 2, 3 and 4. Chapter 2 presents the nature of the business environment, evolution of strategic entrepreneurship as a response to the dynamic and competitive environment highlights the conceptual gaps from previous studies and identifies

market orientation, entrepreneurial orientation, and networking capability as appropriate constructs of strategic entrepreneurial response (SER) to bridge the conceptual gaps from the previous studies. In chapter 3, the concept of strategic entrepreneurial response is explored; the relationships between dimensions of SER and SME performance are reviewed and it presents the research conceptual framework. Chapter 4 presents the context in which data were collected, highlights various strategies employed to support entrepreneurship in the SME sector, covers the trends of socio economic development and policy reforms since independence and their implication to entrepreneurship culture and SME development. Finally, it concludes by identifying the main challenges facing entrepreneurs and SMEs in Tanzania in the era of globalization and trade liberalization. The research methodology and results of the study are presented in chapter 5 and 6, respectively.

7.2 EMPIRICAL RESULTS

The discussion of empirical results of this study is structured in six sections aimed at answering six research questions presented in section 7.1. The first section is on measurement of the concept of strategic entrepreneurial response (SER). The second section is on the relationship between individual and composite dimensions of SER and SME performance. The third section is on the amount of variance explained in SME performance by the composite dimensions of SER. The fourth section is on the amount of variance explained in SME performance by the interaction of dimensions of SER. The fifth section is on controlling the influence of demographic variables in the amount of variance explained in SME performance, to be able to draw a conclusion whether the variance explained in SME performance is due to the dimensions of SER or are influenced by demographic variables. The sixth section is to identify the best predictor to explain SME performance.

7.2.1 Measurement Of Strategic Entrepreneurial Response

This study derived the concept of strategic entrepreneurial response from three constructs, namely: market orientation, entrepreneurial orientation and networking capability. Each construct has a set of dimensions; market orientation has two dimensions, namely: customer orientation and competitor orientation. Entrepreneurial orientation has three dimensions, namely: pro-activeness, risk taking

and competitive aggressiveness and networking capability includes four dimensions, namely: relational skills, internal communication, coordination and partners' knowledge. Since these dimensions were used for the first time to measure SER, it raised the first research question presented in section 7.1.

Question 1: *Does the individual dimension of market orientation, entrepreneurial orientation and networking capability successfully measure SER?*

To answer the first research question the proposition 1 (P1) presented below was formulated.

P1 *Collective dimensions of market orientation, entrepreneurial orientation, and networking capability measure strategic entrepreneurial response (SER).*.

Before proceeding further to measure SER, the data suitability for factor analysis that leads to a reliability test was performed. Table 6.13 reported a significant Bartlett's test of sphericity at $p< 0.01$ suggesting the correlations matrix of the test variables is significantly different from the identity matrix. The findings suggest reasonable correlations that support factor analysis. Moreover, the Kaiser Meyer–Olkin value of 0.947 (Table 6.13) exceeding the recommended value of 0.5, suggests sampling adequacy for factor analysis (Kaiser, 1970:405; Kaiser, 1974:35).

Subjecting the individual dimensions in the principal component analysis, after oblique rotation, revealed presence of nine factors with an Eigenvalue greater than 1, explaining a total variance of 68.16 percent of the total variance (Table 6.16). The extracted factors were customer orientation, relational skills, internal communication, coordination, pro-activeness, and risk taking. Others include partners' knowledge, competitor orientation and competitive aggressiveness. The reliability analysis of nine factors were presented in Table 6.20 with the highest Cronbach's alpha (α) value recorded in relational skills ($\alpha = 0.932$) and the lowest value recorded in competitor orientation ($\alpha = 0.805$). These values are beyond the cut-off point of 0.8 which impliy that they represent acceptable levels of internal reliability (Bryman & Bell, 2007:164). The higher Cronbach's alpha values recorded in this study, denote

that the measurement tool captured well the dimensions of the three constructs, namely: market orientation, entrepreneurial orientation and networking capability.

Based on the literature, the nine factors are dimensions of the three constructs, namely: market orientation (i.e. customer orientation and competitor orientation) (Narver & Slater, 1990:21); entrepreneurial orientation (i.e. pro-activeness, risk taking and competitive aggressiveness) (Lumpkin & Dess, 1996:137; Lumpkin & Dess, 2001:431; Miller, 1983:771) and networking capability (i.e. relational skills, internal communication, coordination and partner's knowledge) (Walter *et al*., 2006:541). The summary of distribution of each factor on respective constructs was summarized in Figure 6.3.

To examine whether the extracted factors/collective dimensions of market orientation, entrepreneurial orientation and networking capability could successfully measure SER, the second order factor analysis was performed. The results on the second order factor analysis, which involved the nine factors, converged to a single component (Table 6.19). This implies that the extracted nine factors measured a single construct that is the "strategic entrepreneurial response (SER)". This observation is consistent with the argument posed by Field (2009:628) that the existence of clusters of large correlation co-efficients between a subset of variables suggests that those variables could be measuring aspects of the same underlying construct. Li *et al*. (2008:123) supported the argument that convergent validity exists if a group of indicators are measuring a common factor.

According to Fornell and Lacker (1981) the convergent validity can be measured at the individual item's loadings and the average variance extracted (AVE). Gefen, Straub, and Boudreau (2000) suggest that individual item loadings, which represent squared multiple correlation of 0.7 or greater may imply that the factor shares more variance with its construct than error variance. Table 6.20 presents results on square multiple correlations of extracted factors ranging between 0.828 and 0.944 which are quite well above 0.7. These findings suggest that more than 80% of the items variance (the squared multiple correlations) can be attributed to strategic entrepreneurial response. From these findings it can confidently be concluded that

the nine factors successfully measured the concept of strategic entrepreneurial response (SER), hence supporting proposition 1.

SUMMARY

The literature review and empirical results support the proposition that SER is measured by the collective dimensions of market orientation, entrepreneurial orientation, and networking capability. The decision is based on the fact that the collective test dimensions converged into a single construct which imply that they are measuring aspects of the same underlying construct. The second support is that the square multiple correlation of the extracted nine factors are by far above 0.7, suggesting that they share more variance with the SER than the error variance. With these findings, proposition 1 which states, *"collective dimensions of market orientation, entrepreneurial orientation, and networking capability measure strategic entrepreneurial response,* is accepted.

7.2.2 Relationship Between Individual Dimensions Of SER And SME Performance

The convergence of the nine factors into one construct, implies that these factors are substantially correlated and they measure a single construct "strategic entrepreneurial response (SER)". For the purpose of this study the nine factors will be referred to as individual dimensions of SER, a term that will apply throughout the next sections. However, the convergence of individual dimensions of SER into a single construct, does not tell whether these factors are related to the dependent variables such as SME performance, LnProfit, LnROA and LnROI. This argument raised the second research question 2(i) presented in section 7.1.

Question 2(i): *Is there any relationship between the individual dimensions of SER and SME performance?*

To answer this question, the relationships between individual dimensions of strategic entrepreneurial response, namely: customer orientation, competitor orientation, pro-activeness, risk taking, competitive aggressiveness, relational skills, internal communication, coordination and partner's knowledge with SME performance,

LnProfit, LnROA and LnROI were examined using the multiple regression to test a set of advanced hypothesis 1(a) to 1(i). The findings are discussed in the next section.

1: Relationship between customer orientation and SME performance

Customer orientation is the sufficient understanding of target buyers of products and services to be able to continuously create superior value for them (Narver & Slater, 1990:21). A thorough understanding of customers entails the understanding of customer's taste, preferences, current demands and problems confronting them. Loasby (2010:1302) and Gorry and Westbrook (2011) concludes that prior knowledge of customers' problems and ways to serve the market, influence discovery of solutions to the customers' problems. This conclusion may suggest that customer orientation can serve as a source of a customer's prior knowledge to the firm, which implies that the firm knows in advance which products/services are required, in which form and when they should be made available to the market. Keh *et al.* (2007:607) supports this argument and points out that firms that monitor customers' needs tend to improve creativity and produce novel and meaningful offerings and marketing programs that enhance the firm's performance. Based on these arguments it is compelling to believe that customer orientation is related to SME performance. It is from this background hypothesis 1(a) was formulated.

Ho1(a) *Customer orientation is not related to SME performance.*

Ha1(a) *Customer orientation is related to SME performance.*

The relationship between customer orientation and SME performance was examined to test hypothesis 1(a) through multiple regression. Model 3 in Table 6.39 shows a high and significant positive relationship between SME performance and customer orientation (β = 0.361**). These findings suggest that as firms put more emphasis on customers, it generates strategic information that leads to the understanding of challenges confronting them and both articulable and latent needs. Articulable needs can easily be expressed by customers, while the latent needs on the other hand cannot be expressed easily, but can be identified by examining day to day challenges confronting customers. Awareness of customers' challenges and needs constitute the relevant market opportunities which potentially have strong

performance implications. Verhees and Meulenberg (2004:147) reported similar findings when examined the relationship between customer market intelligence and a small company's performance.

Exposure to customer challenges provides a road map to develop innovations as a response to address these challenges. Wicklund and Shepherd (2003:1308) argued that the "locus of innovation often lies with users of new technologies who cannot easily articulate their needs". Schindehutte *et al.* (2008:7) echoed a similar view, that in market-driven environments customers are not necessarily able to express needs or preferences, a situation that create challenges in the way strategic market information can be generated. In this case, this study argues that focusing on customers' challenges and the needs which have not found solutions and the effort to find solutions to fill these gaps, may enhance innovation that is associated with the firm's performance.

SUMMARY

The recorded highly significant positive relationship between customer orientation and SME performance provide empirical evidence to reject the null hypothesis Ho1(a) and accept an alternative hypothesis Ha1(a) that state *"The customer orientation is related to SME performance"*.

The positive relationships between customer orientation and SME performance suggest that as firms emphasises on customer orientation, they are likely to identify market gaps which constitute real potential opportunities. The response to fill these gaps triggers innovation that subsequently enhances a firm's performance.

2: Relationship between competitor orientation and SME performance

Competitor orientation is the understanding of the short term strengths and weaknesses and the long term capabilities of both current and potential competitors (Narver & Slater, 1990:21). This may also suggest that firms that focus on competitors are able to identify opportunities which are currently not exploited, or partially exploited, by rivals. This information is crucial for proactive firms to offer unique products and services before rivals. Li *et al.* (2008:119) argues that proactive firms offer unique products and services before competitors and take first mover

advantage to generate profits and wealth before competitors are able to imitate the competitive advantage and offer similar products and or services. This may suggest that competitor orientation is associated with SME performance hence the hypothesis 1(b).

Ho1(b) *Competitor orientation is not related to SME performance*

Ha1(b) *Competitor orientation is related to SME performance.*

In addressing the hypothesis 1(b) the relationships between competitor orientation and SME performance were examined. The results presented in Table 6.39 model 3 shows that SME performance recorded significant positive relationships with the competitor orientation (β = 0.226**). The recorded positive relationship suggests that as the firms capitalize on competitor orientation, the better the firm's performance, which implies that it understands the strength and weaknesses of rivals in terms of strategy they use, types of products and services they offer and those which are currently not offered. As such, this information is helpful for firms adopting pro-active strategies as a response to seize market opportunity before competitors. Possibly this observation may explain the recorded highly significant positive correlation between pro-activeness and competitor orientation (r = 0.443**) (Table 6.21). This may suggest that a pro-active firm is likely to take pro-active posture when it is informed about rivals' weaknesses and strengths, possibly to be able to identify the entry point when offering products and or services to the markets.

Understanding rivals' weaknesses is another way of identifying opportunities that enables the firm to capitalize in their own advantage. On the other hand, understanding rival's strengths provides a platform for the firm to learn and acquire new capabilities to gain competitive advantage that sustain a firm's performance. Also knowing the strategy, type of products and services currently offered by competitors, enables the firm to effectively execute differentiating strategy by offering new products or the same products and or services in a different way. Porter (1996:64) affirms that competitive strategy is about choosing to be different from rivals. However, to sustain a competitive advantage, a continuous process of learning and understanding the competitor's behaviour is crucial in order to offer different products/services in the market.

SUMMARY

The significant relationship between competitor orientation and SME performance provide empirical evidence to reject the null hypothesis Ho1(b) and accept an alternative hypothesis Ha1(b) that state *"The competitor orientation is related to SME performance"*.

The positive relationship suggests that a competitor-oriented firm generate strategic information that enables the firm to capitalize on rivals' weaknesses for the firm's advantage and learn from its strengths to build a competitive advantage. This information also facilitates firms to execute differentiation strategies as a response to fill the market gaps. Sustained competitor orientation fosters a sustainable competitive advantage crucial in strategic entrepreneurship to enhance a firm's performance.

3: Relationship between pro-activeness and SME performance

According to Lumpkin and Dess (2001:431) pro-activeness refers to opportunity-seeking, forward-looking behaviour and involves introduction of new products/services ahead of competitors and acting in anticipation of future demand to create change and shape the environment in a firm's advantage. It is from this view that the proactive behaviour has long been associated with the first mover advantage that is related to firm performance (Li *et al.,* 2008:119). This argument leads to the formulation of the hypothesis 1(c).

Ho1(c) *Pro-activeness is not related to SME performance.*

Ha1(c) *Pro-activeness is related to SME performance.*

The relationship between pro-active behaviour and SME performance was examined to test hypothesis 1(c). The results of model 3 presented in Table 6.39 shows a significant positive relationship between pro-activeness and SME performance (β = 0.105*) and LnProfit (β = 0.083*) and no significant positive relationship with LnROA and LnROI. These findings may suggest that pro-activeness might be beneficial for firms targeting short term performance such as profit, but may need time to be reflected in long term performance such as ROA and ROI. This argument implies

that profit can be generated even by exploiting a short-lived opportunity which may not necessarily be sustainable enough to be reflected in long term performance measures. However, to confirm this argument, a longitudinal study needs to be planned in order to examine the relationship between pro-activeness, ROA and ROI as to observe changes on the nature of relationships occurring over time. It will also be of interest if future research identify the most reliable performance measures which may cater for both short and long term performance.

The positive relationship between pro-activeness and the overall SME performance supports previous results reported earlier on positive relationship between firm performance and pro-activeness (Keh *et al*., 2007:593). The positive relationship may suggest that as firms capitalize on pro-active behaviour, they exploit opportunities and generates profit before rivals impose competition on the same opportunities. Cakar and Erturk (2010:326) conclude that the ability to launch new products or services before competitors, is a key factor in gaining first mover advantages, achieve product success, capturing market share and increas the long term viability of the firm.

Lumpkin & Dess (2001:430) pointed that pro-activeness is a response to opportunities and is appropriate in a dynamic environment where environmental conditions are rapidly changing. The positive correlation between pro-activeness and the two individual dimensions of SER namely; customer orientation (r = 0.313**) and competitor orientation (r = 0.443**) presented in Table 6.21, signify the importance of an effective system of generating strategic market information for a pro-active firm. These findings imply that pro-active firms go to market, while well-informed about factors affecting customers and competitors behaviours, types of products and or services to be offered, as well as how and when they should be offered. It is through this behavior that a firm builds competitive advantage, which put the firm ahead of competitors in terms of performance. Supporting this observation Schindehutte *et al.* (2008:6) argued that in events where pro-active posture target latent needs, it is likely to create new markets and increase market shares.

The literature pointed out that the advantage obtained by firms, adopted proactive behaviour to include technological leadership, imposition of switching costs to

incumbent, which helps a firm to capture market share and achieve brand recognition due to the domination of the market (Lieberman & Montgomery, 1988:41; Cakar & Erturk, 2010:326; Li *et al.,* 2008:119). These features altogether enhance and sustain a firm's performance, which may also suggest that pro-activeness has a potential to create new markets that never existed before, or expand market share for the firm's advantage and sustain competitive advantage over the competitors. It is also possible to argue that pro-active firms do not act blindly in the market place; they respond to exploit market opportunities while already knowing what is required in the market. These arguments support the positive relationship between pro-activeness and SME performance.

Interestingly, Table 6.21 shows that the pro-activeness recorded significant negative correlation with the relational skills (r = -0.305**), internal communication (r = -0.244**), partners' knowledge (r = - 0.355**) and networking capability (r = – 0.308**) but positive correlation with the coordination (r = 0.313**). These findings suggest that a proactive firm is not likely to engage in relational skills, internal communication, partners' knowledge and networking capability in general. But it is likely to engage in coordination of resources and business activities. Among explanation for this might be the nature of pro-activeness that requires secrecy and surprise to the rivals. It is possible that engaging in relational skills, internal communication and partners knowledge that involves exchange of information, may leak the strategic information that may end up being received by rivals consequently threatening the competitive advantage that can be acquired through pro-active behaviour. However, results shows that coordination will still be crucial for pro-active behaviour for effective use of resources hence a positive relationship.

SUMMARY

These findings present evidence that supports the existence of a significant relationship between pro-activeness and SME performance, which provide adequate empirical evidence to reject the null hypothesis Ho(1c) and accept an alternative hypothesis Ha1(c) that state "*pro-activeness is related to SME performance"*.

These findings suggest that in events where pro-active firms respond to opportunities identified through customer orientation and competitor orientation is likely to address the most feasible opportunities which are likely to be successful in the market because they address customers' challenges and or needs and at the same time they fill the market gap that has not been exploited by competitors. In so doing, pro-active firms are likely to create new markets, expand market shares and sustain the competitive advantage of the firm.

Also findings suggest that pro-active firms are unlikely to adopt relational skills, internal communication and partners' knowledge with the fear of jeopardizing competitive advantage due to the possibility of leakage of strategic information to competitors before seizing opportunities. However, pro-active firms may prefer to adopt coordination, possibly due to effective use of resources which account on performance.

4: Risk taking

According to Monsen & Boss (2009:75), risk taking is a "tendency to take bold actions such as venturing into unknown new markets, committing large amounts of resources and borrowing heavily to pursue opportunities that have a reasonable likelihood of producing loses or significant performance discrepancies". The literature has long associated risk taking with a firm's performance (Keh *et al.,* 2007:593). The argument is based on the premise that on a perceived high risk business environment, few people are willing to take new initiatives and those who are willing are likely to generate more profit that enhance a firm's growth if their businesses succeed. In this case, one would expect a positive relationship between risk taking and SME performance as reported in the previous studies (Keh *et al.,* 2007:593). It is from this background, hypothesis 1(d) was formulated.

Ho1(d) *Risk taking is not related to SME performance.*

Ha1(d) *Risk taking is related to SME performance.*

Examining the relationship between risk taking and SME performance to test hypothesis 1(d), the findings presented in model 3 (Table 6.39) indicate that SME performance is strongly negative related to risk taking (β = -0.184**). Consistently, risk taking recorded a significant negative relationship with the LnProfit (β = - 0.243**), LnROA (β = - 0.159**) and LnROI (β = - 0.125*). These findings suggest that the more firm perceive high risk environment the less it engages in profitable businesses. This is probably applicable in the business environment with less developed business support services and a weak regulatory environment where entrepreneurs feel less protected and avoid taking high risks. In the study area Tanzania is one case in point characterized by a weak regulatory environment and uncoordinated business support services (Ministry of Finance and Economic Affairs, 2008a:19; Ministry of Industry and Trade, 2003:2). Such environment has implication on the propensity of entrepreneurs to engage in risk ventures.

The literature indicates that a regulatory environment include laws, regulations and codified governmental policies that provide support and reduce the risk for the business (Ahlstrom & Bruton, 2002; Busenitz, Gomes, & Spencer, 2000; Li & Zhang, 2007). In the event that business environment is characterized by a weak regulatory environment and intense competition fuels unethical behaviour among entrepreneurs, firms fail to exploit new opportunities because innovations appears to be too risky (Tang & Hull, 2012:148). These findings may explain Tanzania's context in which data were collected that is frequently cited for the weak regulatory environment and business support services and as a result imitations and infringement of intellectual properties is the game of the day. However, further research to establish the relationship between environmental regulation, business support services and SME performance, might be beneficial to confirm this observation.

The findings presented in Table 6.21 shows that risk taking recorded significant positive correlation with pro-activeness (r = 0.424**) suggesting that pro-activeness is likely to happen when the perceived risk is high. However, the significant positive

correlation between pro-activeness, customer orientation (r = 0.313**), competitor orientation (r = 0.443**) and significant negative correlation between risk taking and customer orientation (r = - 0.349**) and competitor orientation (r = - 0.398**) presents an interesting relationship. These findings suggest that although pro-active behaviour takes place in a higher perceived risk environment, it is more likely when a pro-active firm is well informed about customers and competitors behaviours. These findings further suggest that customer and competitor orientation lowers the risk implied in the business. In view of these findings, it may suggest that the risk taking behaviour is driven by the information asymmetry amongst entrepreneurs. This argument implies that entrepreneurs who are informed more about market dynamics such as customers and competitor behaviours are likely to take a proactive stance, than those who are not.

SUMMARY

The recorded significant relationship between risk taking and SME performance provide adequate empirical evidence to reject the null hypothesis Ho1(d) and accept an alternative hypothesis Ha1(d) that state *"The risk taking is related to SME performance"*.

The significant negative relationship between risk taking and SME performance suggest that in events where firms perceive high business risk, it is unlikely to engage in profitable ventures. This might be due to the weak regulatory environment and un-coordinated support services in the study area that entrepreneurs feel unprotected to undertake business initiatives, which are normally associated with the risks. Also the negative correlation between risk taking customer orientation and competitor orientation presented in Table 6.21 hints that focus on customer orientation and competitor orientation lowers the perceived risk which subsequently fosters pro-active behaviour which is associated with SME performance. In this view, this study concludes that the pro-active behaviour among entrepreneurs is driven by the strategic market information asymmetry among entrepreneurs.

5: Competitive aggressiveness

Competitive aggressiveness refers to a firm's propensity to directly and intensively challenge its competitors to achieve entry or improve competitive position to

outperform industry rivals in the market place (Lunmpkkin & Dess, 2001:431; Monsen & Boss, 2009:75). This implies that competitive aggressiveness is more of a response to rivals competitive threats or a posture of the firm to defend its competitive advantage or secure new competitive advantage over rivals. This background information leads to the formulation of the hypothesis 1(e).

Ho1(e) *Competitive aggressiveness is not related to SME performance.*

Ha1(e) *Competitive aggressiveness is related to SME performance.*

The relationship between competitive aggressiveness and SME performance was examined to test hypothesis 1(e). The results in Table 6.39 model 3 shows a highly significant negative relationship between the competitive aggressiveness and SME performance (β = - 0.157**), LnProfit (β = - 0.182**), LnROA (β = - 0.130**) and LnROI (β = - 0.134**). Lumpkin and Dess (2001:445) reported similar results in the relationships between competitive aggressiveness and sales growth, but observed a weak relationship in profitability and return in sales.

The negative relationship between competitive aggressiveness and SME performance suggests that as a firm puts more emphasis on a competitive aggressive strategy as a response mechanism to competitors, it is likely to lower its performance. Rauch *et al*. (2009:762) suggests that the context matters when interpreting dimensions of entrepreneurial orientation due to cultural difference. Competitive aggressiveness is a response to competitors and it takes different shapes from head on collision (undo the competitor) to massive price cut, spending aggressively compared to competitors on advertisement of products, services and quality improvement (MacMillan & Day, 1987). While competitive aggressive postures like “undo the competitor” can be well accepted in other cultures, in the Tanzanian context that emerged from socialist policies with cohesive attitude and behaviour, is not the case. This argument may partly explain why competitive aggressiveness recorded a strong negative relationship with SME performance.

However, there might be other reasons to explain the recorded negative relationship between competitive aggressiveness and SME performance. Tanzania’s private sector is still at an infancy stage (life cycle) as it started recently following the structural adjustment and privatization of state-owned enterprises during the mid-

1990. The adoption of structural adjustment was a big shift in the socio-economic landscape of the country that opened doors for the private sector in the economic development. This is contrary to the socialist (*Ujamaa*) policy that undermined the role of the private sector that subsequently stunted the entrepreneurship culture (Mongula, 2004b:18; Temu & Due, 2000:684). The structural adjustment that led to the open market economy was a new era for entrepreneurship driven by the private sector in Tanzania. In this view, several opportunities are still opening up for entrepreneurs to take advantage of. As such, in this environment competitive aggressive posture, such as seeking market share at the expense of cash flow and profitability such as massive price cuts (Venkatraman, 1989), may not likely to be associated with high firm performance. Lumpkin and Dess (2001:446) support this argument by suggesting that "competitive aggressive is more appropriate in more mature industries/life cycle, where few opportunities are observed and competition is tense". In such environment competitive aggressiveness may enhance firms to defend strongly their competitive position relative to competitors.

In this regard, it is compelling to argue that the business competition experienced in Tanzania may not be the same as in other countries with different political backgrounds and cultural settings, where the competition is due to an inadequacy of opportunities because the industries have reached maturity. In Tanzania the industries are still at an early stage of development where opportunities are still opening up. The problem is the lack of entrepreneurial skills and experience amongst local entrepreneurs to withstand pressure of open market economy which allows free movement of goods and services, and entrepreneurs from other countries who are well experienced in business. This view is shared by other scholars who pointed out that Tanzania suffers from inadequate entrepreneurial skills to face competition from rivals (Ellis & Mdoe, 2003; Kristiansen *et al.,* 2005; Ministry of Finance and Economic Affairs, 2008a:19). This might be a time for Tanzania to build competitive capacity and entrepreneurial skills for entrepreneurs to be able to take advantage of unfolding opportunities and face challenges posed by a competitive environment.

SUMMARY

The results on the significant relationship between competitive aggressiveness and SME performance provide empirical ground to reject the null hypothesis Ho1(e) and accept an alternative hypothesis Ha1(e) that state "The *competitive aggressiveness is related to SME performance*.

However, two reasons are advanced to explain negative relationship between competitive aggressiveness and SME performance. The first reason might be the political background of the study area (Tanzania) that emerged from socialism which has a cohesive culture such as social values, attitude and behaviours, which may not welcome some of the competitive aggressive behaviours such as "undo the competitors". This attitude may affect the competitive aggressive posture to foster performance.

The second reason is that Tanzania has just opened its doors to the private sector to participate in business activities in an environment characterised by plenty of opportunities which are still unfolding. In such an environment where business are required to take advantage to generate profit and grow, a competitive aggressiveness posture such as a price cut may not be appropriate since it may jeopardize a firm's profit which is required for business growth.

6: Relational skills

The relational skill is among individual dimensions of SER drawn from the networking capability. According to Marshall *et al.* (2003:248) relational skills include aspects as communication ability, self-reflection, conflict management skills, interpersonal skills, sense of justice and cooperativeness. These aspects are crucial in creating and sustaining relationships and build trust amongst networking partners. Welter and Smallbone (2011:116) support this argument by concluding that "trust is important for reliability of any exchanges, which is relevant for networking that involves exchange of strategic information resources and other capabilities to attain competitive advantage that leads to firm performance". Drawing from this conclusive remark, hypothesis 1(f) was formulated.

Ho1(f) *Relational skills is not related to SME performance.*

Ha1(f) *Relational skills is related to SME performance.*

In this view it was deemed necessary to examine the relationship between relational skills and SME performance to test hypothesis 1(f). Table 6.39 in model 3 shows that relational skill is significantly positive related to SME performance (β = 0.109**), LnROA (β = 0.143**) and LnROI (β = 0.136**), and registered no significant positive relationship with LnProfit (β = 0.012^{ns}). These findings suggest that relational skills might be appropriate for long term performance measures such as ROA, ROI and the overall SME performance and may not be reflected in short term performance measures such as profit. The reason behind this argument is the fact that relational skills are responsible to create long term relationships. However, long term relationships require time to build trust and confidence among networking partners before the exchange of strategic information takes place and benefits are realized. In this case, benefits associated with relational skills might be realized and reflected in long term performance measures.

It is important to know that networking involves sharing of strategic competitive resources and capabilities; in this regard it requires trust and confidence among participating partners of which relational skills can account. Absence of inter-firm trust can seriously impact the exchange of resources and capabilities among networking partners. Kale *et al* (2000:225) pointed that trust reduces negotiation costs, facilitate high degree of learning and information or know-how exchanged between networking partners. Baron and Markman (2003) support this argument by pointing out that relational skills are a social competence, which are crucial for the management of the relationship that involves interpersonal exchange of resources and other capabilities. A firm with high relational skills is likely to build trust and sustain relationships that allow exchange or sharing of resources and capabilities that impact long term performance of a firm.

SUMMARY

The recorded significant positive relationship between relational skills and SME performance provide empirical support to reject the null hypothesis Ho1(f) and accept an alternative hypothesis Ha1(f) that state *"The relational skill is related to SME performance"*.

The significant positive relationship between relational skills, SME performance, LnROA and LnROI and no significant positive relationship with LnProfit suggests that relational skills might be appropriate for long term performance measures which may not be reflected in short term performance measures such as profit. The reason might be the fact that relational skills take time to build trust and confidence amongst networking partners to allow exchange of strategic resources and capabilities to take place.

7: Internal communication

Internal communication is another individual dimension of SER drawn from networking capability that involves assimilation and dissemination of strategic information within the firm (Kale *et al.,* 2000:223). Song *et al*. (2010:565) emphasized the importance of information utilization to build a firm's competitive advantage. The literature shows that firms attain competitive advantage when implements strategies which competitors are unable to duplicate or find it too costly to try to imitate (Hitt *et al.,* 2007:4; Barney & Arika, 2005:140). Continuous monitoring of the environmental dynamics, customers and competitors behaviours and sharing strategic information of the firm sustain competitive advantage that subsequently enhances a firm's performance (Teece, 2007:1322). In this case there is a reason to believe that internal communication is related to a firm's performance. This background information result into hypothesis 1(g).

Ho1(g) *Internal communication is not related to SME performance.*

Ha1(g) *Internal communication is related to SME performance.*

The multiple regression analysis was employed to test hypothesis 1(g). Table 6.39, model 3 shows a highly significant positive relationship between internal communication and SME performance (β = 0.120**), LnProfit (β = 0.106**), LnROA

(β = 0.105*) and LnROI (β = 0.123**). These findings imply that firms perform better if encouraged to share strategic information within the firms. Internal communication is crucial in the dissemination of the strategic information and the learning of new capabilities within the firm. The information such as firm's resources and capability needs, potential and weaknesses of networking partners, are crucial to alert employees to identify new opportunities and new key areas to focus on during the period of networking relationship, in order to be able to maximize learning from partners and acquire the most relevant resources and capabilities to fill the gaps in their firms in order to build competitive advantage. This argument is supported by Johansson (2009:25) who pointed out that most small firms in a competitive environment acquire competence through learning from their market leaders. In this view, learning is an important aspect in building the competitive advantage of the firm of which internal communication can enhance.

Internal communication, also during the internal exchange of strategic information, helps a firm's members to identify new opportunities and pull together their efforts that contribute to a common objective. Teece (2007:1322) suggests that opportunities are detected by a firm when it is open to acquire and utilize new information and knowledge and the differential access and utilization of strategic information amongst firms may differentiate the ability to identify new opportunities. Keh *et al.* (2007:67) emphasizes that competitive advantage associated with strategic information depends on whether firms make the best use of the acquired information. The significant positive correlation between internal communication customer orientation (r = 0.168**), competitor orientation (r = 0.159**) and market orientation (r = 0.345**) confirms the argument that emphasis on market orientation, especially customer orientation and competitor orientation stimulates internal communication. This argument may suggest that internal communication is one way of effective utilization of strategic information acquired from beyond and within the firm's boundaries. Furthermore, these findings are supported by Sivadas and Dwyer (2000:40) who associated internal communication with the collaborative competence that contributes to the firm's performance.

SUMMARY

The highly significant positive relationship recorded between internal communication and SME performance provide empirical evidence to reject the null hypothesis Ho1(g) and accept an alternative hypothesis Ha1(g) that state *"internal communication is related to SME performance"*.

The positive relationship between internal communication and SME performance, LnProfit, LnROA and LnROI suggests that internal communication enhance exchange of strategic information within the firm that instil learning new capabilities amongst workers to foster long and short term performance.

8: Partner's knowledge

This study considered that before engaging in any networking relationship, partners' knowledge is important for the fact that networking happens for a reason. It is a well thought relationship that requires networking partners to have partners knowledge before engaging in any relationship. Partner's knowledge enables firm to identify networking partners with the most appropriate resources and capabilities that are relevant to bridge the gap of resources and capabilities needed by their firms (Lee, Kelly, Lee, & Lee, 2012:2). Das and Bring-Sheng (2000) argued that firms with partners' knowledge can structure appropriate exchange mechanisms and governance structures that enhance the competitive advantage of the firm. This is in line with the frequently cited reasons for networking that allows firms to access resources they don't own or control but need to complement their own resource needs and capabilities (Song *et al.,* 2010:565; Dickson, Weaver & Hoy, 2006:488) that contribute to build a firm's competitive advantage. In this case partners' knowledge is likely to be related to SME performance. These arguments lead to the formulation of the hypothesis 1(h).

Ho1(h) Partners' knowledge is not related to SME performance.

Ha1(h) Partners' knowledge is related to SME performance.

The relationship between partner's knowledge and SME performance was examined to test hypothesis 1(h). Table 6.39, model 3 shows that a partner's knowledge

recorded a significant positive relationship with LnProfit (β = 0.083*) and no significant positive relationship with SME performance (β = 0.045^{ns}), LnROA (β = 0.038^{ns}) and LnROI (β = 0.012^{ns}). These findings imply that firms with potential partners' knowledge, before engaging in any networking relationships, are likely to identify resources and capabilities existing to a potential partner and evaluate relevance of these resources and capabilities to their firm's needs. In the course of the networking relationship, partner's knowledge enables a firm to acquire relevant resources and capabilities to fill resources and capability gaps and attain short term performance such as profit.

This study argues that partners' knowledge might be an appropriate strategy to support business growth at the growth stage of the business' life cycle. The growth stage in the business life cycle is the stage with remarkable growth and it requires a lot of resources to support fast pace of growth. Knowing whose partner has the right resources, places the firm at a strategic position to acquire and timely allocate resources to support the resources and capability needs of the firm.

SUMMARY

The fact that the partner's knowledge recorded no significant relationship with the overall SME performance, the findings provide inadequate empirical evidence to reject the null hypothesis Ho1(h) that state *"partner's knowledge is not related to SME performance"*. In other words, this study failed to reject the null hypothesis Ho1(h). The significant positive relationship registered between partner's knowledge and LnProfit and no significant positive relationship with SME performance, LnROA, and LnROI suggest that partners' knowledge might be appropriate for short term performance such as profit. This may suggest that partners' knowledge might be appropriate at the growth stage of a business' life cycle where profit and other resources are required to support fast-paced business growth. Knowing whose partner poses appropriate resources and capabilities to fill the needs of the firm, places a firm at a strategic position to acquire and sustain high profit.

9: Coordination of resources and business activities

The coordination of business resources, within and beyond firm's boundaries was thought to be among factors that enabled effective and efficient utilization of firm's resources that could improve its performance. In this case, the assumption was that in any networking relationship, the well-coordinated use of resources improves firm performance. According to Hitt *et al.* (2001:486) firms' resources are in isolation unless strategically coordinated to benefit from their potential; otherwise the networking relationship may not always be beneficial. In this regard, it is assumed that coordination of business activities and resources is associated with the firm's performance. This argument leads to the formulation of the hypothesis 1(i).

Ho1(i) *Coordination is not related to SME performance.*

Ha1(i) *Coordination is related to SME performance.*

This study examined the relationship between coordination and SME performance to test hypothesis 1(i). Table 6.39, model 3 shows that coordination is significantly negative related to SME performance (β = - 0.084*) and LnProfit (β = - 0.087*) and have no significance negatively related to LnROA (β = - 0.076^{ns}) and LnROI (β = - 0.072^{ns}). These findings are contrary to what was expected. It was expected that the coordination will record a positive relationship with performance and possibly a significant relationship. However, the possible explanation for a significant negative relationship between coordination, SME performance and LnPRofit might be context specific. In a dynamic and competitive business environment where consumer needs, technological opportunities and competitor's behaviours, change continuously, it is possible that coordination is not positively associated with SME performance.

This study argues that coordination itself is a resource-consuming practice intended to integrate, build and reconfigure internal and external resources to cope with the fast paced environmental changes. Drawing from dynamic capability view, in dynamic environments, the speed of an environmental change is fast (Teece, 2007:1322), which implies that more resources are needed to support coordination in order to keep up with the speed of the environmental turbulence. As such, in more dynamic and competitive environments where events are changing fast and

competition is tense, firms are likely to adopt competitive aggressive strategies at the expense of profitability. This argument is supported by the significant negative correlation between coordination and competitive aggressiveness (r = - 0.187**) reported in Table 6.21, which suggest that in events where a firm adopt a competitive aggressive strategy, a low coordination should be expected. The reason behind this is that a competitive aggressive posture such as price cuts is associated with the profit reduction which may not support coordination activities. Putting more emphasis on coordination that requires, more resources is likely to drain the profit generated by the firm that has consequences on its performance.

However, future research is considered important to broaden our understanding on which context coordination of internal and external resources is beneficial to the firm. For example, it will be of interest to understand at which level in the continuum of the environmental dynamic coordination it can be beneficial to a firm or at which stage in a business lifecycle coordination is likely to yield positive results to a firm. Such findings will enhance efficient utilization of resources and optimize benefits from business ventures.

SUMMARY

As long as these findings recorded a significant relationship between coordination and SME performance, it provides adequate empirical evidence to reject the null hypothesis Ho(i) and accept an alternative hypothesis Ha1(i) that state "The *coordination is related to SME performance"*.

The negative relationship between coordination and SME performance suggests that coordination of a firm's resources may not necessarily be beneficial to a firm's performance. It depends on the context in which it is executed. These findings may suggest that in competitive and dynamic environment where customer needs, technological opportunities and competitors' activities are fast changing, firms are likely to adopt competitive aggressive strategies such as massive price cuts which may jeopardize firm's profit. In this view, emphasis on coordination which is resource consuming, may drain the profit generated by the firm.

7.2.3 Relationship Between Composite Dimensions Of SER And SME Performance

Findings on relationship between individual dimensions of strategic entrepreneurial response (SER) and SME performance presented variations in the nature of the relationship, even for the dimensions sourced from the same construct. For example while pro-activeness, risk taking, and competitive aggressiveness are sourced from entrepreneurial orientation, when examined, their relationship with SME performance pro-actively recorded a positive relationship while risk taking and competitive aggressiveness recorded a negative relationship. The same trend was recorded in dimensions of networking capability such that relational skill, internal communication and partner's knowledge which recorded a positive relationship with SME performance, while coordination recorded a negative relationship. However, dimensions of market orientation, both customer orientation and competitor orientation were positively related to SME performance.

Since the nine factors were drawn from three constructs, namely: market orientation, entrepreneurial orientation and networking capability, the three constructs will be referred to as the composite dimensions of SER. The variation on the nature of relationship between individual dimension of SER performance prompted another research question 2(ii) presented in section 7.1

Question 2(ii): *Does the composite dimensions of SER presents a similar nature of relationship with SME performance?*

It was from this context this study created composite dimension of market orientation, entrepreneurial orientation, and networking capability and examined their relationship with the SME performance. The following section discusses the outcome of the relationship of each composite dimension of SER and the SME performance.

1: The relationship between composite market orientation and SME performance

Although market orientation is a composite construct with three dimensions, namely: customer orientation, competitor orientation and inter-functional coordination (Nerver & Slater, 1990:21), in this study the measurement tool captured only two dimensions,

namely: customer orientation and competitor orientation. Possibly this is a good starting point for future research to refine the measurement instrument to be able to capture all dimensions and examine their suitability to measure SER and the nature of their relationship with SME performance. Market orientation is important to the success of the firm. According to Schindehutte *et al*. (2008:4) the market provides signals to both entrepreneurs and marketers regarding what value is needed, when it is needed, an how it should be delivered. This argument echoed by Li *et al*. (2008:116) and Zhou *et al*. (2005:54) that market orientation is helpful in improving a small firm's performance. These arguments lead to formulation of hypothesis 2(a):

Ho2(a) *Market orientation is not related to SME performance.*

Ha2(a) *Market orientation is related to SME performance.*

The results in Table 6.40 model 4, indicate that the relationship between market orientation, overall SME performance (β=0.697**), LnProfit (β=0.779**), LnROA (β=0.605**), and LnROI (β=0.591**) recorded a significant positive relationship. Previous studies reported similar findings of positive relationships between market orientation and firm performance (Kara *et al.,* 2005:112; Li *et al.,* 2008:128; Verhees & Meulenberg, 2004:147). The findings are consistent with the relationship between SME performance and individual dimensions of market orientation, namely: customer orientation and competitor orientation. The strong relationship between market orientation and performance could be attributed by the prevailing intense market competitive pressure triggered by the dynamic business environment. These findings support the argument posed by Li *et al.* (2006:106) that in a competitive environment firms tend to be much more market oriented to generate market intelligence that helps in strategic renewal to cope with the rapid change in the business environment.

Strategic market information increases the ability of firm to discover and exploit relevant opportunities due to a clear understanding of problems confronting customers and the actual market value required to fill the existing gap. Zhou *et al*. (2005:54) echoed a similar opinion that market orientation facilitates technical based innovations, which address the needs of the mainstream customers. Wicklund and Shepherd (2003:1308) emphasize that market knowledge is the source of innovation targeted to address problems confronting customers who are not able to articulate

their needs. These arguments may suggest that market orientation is the source of opportunities which leads to both radical and incremental innovation which are associated with a firm's performance. Viewing this way, it is compelling to speculate that sustaining market orientation is likely to build firms' opportunity seeking behavior, which is one of the key pillars of strategic entrepreneurship responsible for sustainable performance in a dynamic environment.

SUMMARY

The significant relationship between market orientation and SME performance provide evidence to reject null hypothesis Ho2(a) and accept an alternative hypothesis Ha2(a) that states *"market orientation is related to SME performance"*. The significant positive relationship between composite market orientation and SME performance is consistent with the relationship between SME performance and individual dimensions of market orientation, namely: customer orientation and competitor orientation.

The positive relationship between market orientation and SME performance suggests that market orientation offers the most feasible and relevant opportunities to address market gaps that if exploited, they are likely to be successfully in the market place. In this regard, sustaining market orientation culture in the firm, it is likely to build opportunity-seeking behaviour, which is one of the key pillars of strategic entrepreneurship responsible for sustainable performance in a dynamic environment.

2: The relationship between composite entrepreneurial orientation and performance

Previous studies reported equivocal findings on the relationship between composite dimensions of entrepreneurial orientation and performance. While some studies reported positive relationship and acknowledges the importance of entrepreneurial orientation in a firm's performance (Lie *et al.,* 2008:1116; Schindehutte *et al.,* 2008:21; Keh *et al.,* 2007:605), some have failed to establish this relationship or find only a weak relationship (Walter *et al.,* 2006:557; Lumpkin and Dess, 2001:445). The inconsistence of the relationship is confirmed in this study when examining the

relationship between individual dimensions of entrepreneurial orientation and SME performance presented in Table 6.39.

It is from this background, this study considered important to develop a composite construct of entrepreneurial orientation and examine the nature of the relationship with SME performance. In view of this argument hypothesis 2(b) was formulated.

Ho2(b) *Entrepreneurial orientation is not related to SME performance.*

Ha2(b) *Entrepreneurial orientation is related to SME performance.*

The relationship between entrepreneurial orientation and SME performance was examined to test hypothesis 2(b). Table 6.40 model 5 shows that the composite entrepreneurial orientation is positively related to SME performance (β=0.336**), LnProfit (β=0.408**), LnROA (β=0.291**) and LnROI (β=0.257**) despite of the only pro-activeness recording a positive relationship and the two dimensions, namely: risk taking and competitive aggressiveness recording a negative relationship. These findings support previous studies that reported a positive relationship between entrepreneurial orientation and a firm's performance. (Keh *et al.,* 2007:605; Lie *et al.,* 2008:128).

Schindehutte *et al.* (2008:5) associated strong entrepreneurial orientation with the advantage-creating capability and a disruptive advantage destroying performance outcome. This argument implies that strong entrepreneurial orientation through innovation exploit opportunities that create competitive advantage of a firm. In events where firms take a pro-active stance to seize opportunities before competitors and introduce new products or services, it is likely to destroy the competitive advantage of incumbent. This argument is similar to the concept of "creative destruction" introduced by Schumpeter (1934) cited by Lumsdaine and Binks (2009:15) who conclude that entrepreneurs are associated with a wave of innovation or paradigm shifts that often cause the replacement of an existing technology.

With this background, this study argued that entrepreneurial orientation is more suited for advantage-creating (seeking) rather than opportunity-seeking as emphasized by previous studies (Ireland & Webb, 2007b:59; Schendel & Hitt, 2007:1; Ireland, 2007:9; Ireland *et al.,* 2003a:966). In examining the nature of

dimensions of entrepreneurial orientation namely pro-activeness innovation, competitive aggressiveness, risk taking and autonomy (Lumpkin & Dess, 1996:137), they are more oriented towards exploitation of opportunity than opportunity-seeking. The literature has linked exploitation of opportunity with advantage creation (Alvarez & Barney, 2002:90; Ireland *et al.,* 2003a:966; Ketchen *et al.,* 2007:373). The reason for this argument is that pro-active behavior is the response to opportunity, looking forward with anticipation to satisfy market demands (Lumpkin & Dess, 2001:434; Lumpkin *et al.,* 2009:56; Monsen & Boss, 2009:75). In the process an entrepreneurial oriented firm bears the risks and develop innovations to fill the market gaps. This process create a competitive advantage over competitors which need to be defended through continuous scanning of the environment and reconfigure a firm's resources in a way that cannot easily be copied by competitors (Teece, 2007:1319). In events where competition is tense, firms adopt a competitive aggressive posture as a response to competitors' actions in an effort to protect already developed competitive advantage.

Viewing entrepreneurial orientation in this perspective, this study argues that a sustained entrepreneurial oriented culture in a firm is likely to create "advantage-seeking" behavior essential to sustain a firm's competitive advantage.

SUMMARY

The highly significant relationship between entrepreneurial orientation and SME performance provide evidence to reject the null hypothesis Ho2(b) and accept an alternative hypothesis Ha2(b) that state "The e*ntrepreneurial orientation is related to SME performance"*.

The positive relationship between entrepreneurial orientation and SME performance suggest that an entrepreneurial oriented firm driven by pro-active behaviour respond to exploit opportunities before competitors to create a competitive advantage. In this regard, one would suggest that sustained entrepreneurial orientation in a firm builds advantage-seeking behaviours crucial for a competitive advantage over competitors.

3: Relationship between composite networking capability and SME performance

Networking has long been associated with the sharing of resources, capabilities, technologies, and access to market (Dickson & Weaver, 2011:126; Welter & Smallbone, 2011:112; Nieto & Santamaria, 2010:62; Hitt *et al.,* 2007:263). This strategy is crucial especially for firms like SMEs which are confronted by resource scarcity. The literature support the argument that networking allows firms to access resources they don't own or control, but are necessary for a firm's competitive advantage (Song *et al.,* 2010:565; Dickson *et al.,* 2006:488). It is also acknowledged that networking is crucial to share risk and resources in capital intensive ventures or in an environment with weak regulatory frameworks where entrepreneurs feel less protected (Hitt *et al.,* 2007:239). However, Hitt *et al*. (2007:240) argues that not all networking are successful, in fact most networking fail. Some of the reasons for failure are incompatible partners and conflicts between partners. In this view this study include networking capability which is the ability to initiate, sustain and utilize inter-organizational relationships with various external partners (Walter *et al*., 2006:541). In this regard, this study considers that networking capability can resolve these weaknesses that may lead into networking failure. It was from this context hypothesis 2(c) was advanced.

Ho2(c) *Networking capability is not related to SME performance..*

Ha2(c) *Networking capability is related to SME performance.*

The relationships between networking capability and SME performance was examined to test hypothesis 2(c). Model 6 in Table 6.40 presented a significant positive relationship between networking capability, SME performance (β=0.276**), LnRrofit (β=0.374**), LnROA (β=0.213**) and LnROI (β=0.203**). These findings suggest that a networking capability is a strategic orientation for a resource constrained firm to complement resource needs. SMEs that are constrained by resources may benefit from networking if they build networking capabilities by acquiring necessary skills like relational skills, internal communication, coordination and partners' knowledge.

Firms with quality elements of networking capabilities such as relational skills, internal communication, coordination and partners' knowledge are likely to benefit from networking relationship by improving firms' SME performance, profits, ROA and ROI. Through relational skills a firm has conflict resolution skills, interpersonal skills, communication abilities, a sense of justice and cooperation (Marshall *et al.,* 2003:248). These elements are core values in creating trust among networking partners to allow smooth exchange of strategic capabilities. Partners' knowledge enables firms to understand the potentials and weaknesses of potential partners and be able to identify the right partner with compatible resources and capabilities intended to fill the resources and capability gap. The coordination skills facilitate efficient utilization of resources obtained from within and beyond a firm's boundaries and allocate them to the most feasible activities with potential to build a competitive advantage of the firm. The internal communication ensures sharing of strategic information and other capabilities and provides a learning ground for employees to build competitive advantage that enhance firm performance.

The significant negative correlation between networking capability and risk taking (r = -0.340**) suggests that networking capability reduces the risk implied in the business initiatives. This may also suggest that as firms build networking capability, it is likely to strengthen its capacity to access strategic resources from partners, disseminate within the firm where employees learn new capabilities to attain a competitive advantage. Drawing from dynamic capability Teece (2007:1339) argues that favourable environment for learning new capabilities from outside as well as within the firm, is critical to business performance. In this case, internal communication can build internal competence through exchange of strategic information acquired from outside the firm and/or within the firm. The exchange of strategic information enables employees to acquire new knowledge, internalize and apply to build competitive advantage. The built competence reduces the risk perception as entrepreneurs tend to examine the level of risk, based on the capabilities at hand.

SUMMARY

The significant positive relationship between networking capability and SME performance provides adequate evidence to reject the null hypothesis Ho2(c) and accept an alternative hypothesis Ha2(c) that state “The networking capability *is related to SME performance”*.

The positive relationship between networking capability and SME performance suggests that the networking capability is a strategic orientation for resource constrained firms to access and complement resources and capability needs. However, the negative correlation between networking capability and risk taking suggests that firms, with the emphasis on networking capability, are likely to lower the perceived risk. This is due to the fact that networking capability builds competence through acquiring, while learning new capabilities to give firm a competitive advantage that lowers the perceived risk in the business venture.

7.2.4 Amount Of Variance Explained In SME Performance

After examining the relationship between SME performances, individual and composite dimensions of SER, the sequential multiple regression was further used to examine the amount of variance explained in SME performance by scores of the composite dimensions of SER and to examine the amount of variance explained in SME performance by the interaction of the composite dimensions of SER. The next sections discuss the outcome of the findings.

7.2.4.1 Amount of variance explained by dimensions of SER

Previous studies reported equivocal findings on the relationship between SME performance and the composite dimensions of SER, namely: market orientation, entrepreneurial orientation, and networking capability. Since previous studies reported these composite dimensions to vary with the context (Shindehutte *et al*., 2008:11; Morris & Kuratko, 2002), it was imperative to examine in Tanzania context where data were collected. The environment that presents a shift from protective policies with a socialist background that stunted the entrepreneurship culture and private businesses to the open market policy environment that promotes the private

sector and entrepreneurship as drivers of economic growth (Mbeki, 2005:3; Nieman & Nieuwenhuizen, 2009:9).

In this case, this study was set out to examine how much variance in SME performance is explained by the composite dimension of SER in order to answer research question 3 presented in section 7.1.

Question 3: *How much variance in SME performance is explained by scores of the composite dimensions of SER?*

With this background, this study needs to confirm the following hypotheses.

Ho3(a) *Market orientation does not explain significant amount of variance in SME performance.*

Ha3(a) *Market orientation explain significant amount of variance in SME performance.*

Ho3(b) *Entrepreneurial orientation does not explain significant amount of variance in SME performance.*

Ha3(b) *Entrepreneurial orientation explain significant amount of variance in SME performance.*

Ho3(c) *Networking capability does not explain significant amount of variance in SME performance.*

Ha3(c) *Networking capability explain significant amount of variance in SME performance.*

In view of the above, three models (Model 4, 5 & 6) of simple regression analysis were set out to examine how much variance in SME performance, LnProfit, LnROA, and LnROI are explained by scores of market orientation, entrepreneurial orientation, and networking capability (composite dimensions of SER) (Table 6.40). The subsequent sections present the amounts of variance explained in SME performance by the composite dimensions of SER.

1: Amount of variance explained in SME performance by market orientation

The amount of variance explained in SME performance was determined by examining the R square (R^2) and F-ratio. According to Pallant (2007:158) and Field (2010:202) the R square (R^2) in the regression, measures the amount of variance in the outcome variable explained by the predictors, while the F-ratio tests if the amount of variance explained (R^2) in the outcome variable is significant. In this view, model 4 in Table 6.40, when only market orientation was considered, shows that the market orientation explained 48.6%, 60.7%, 36.6% and 34.9% of variance in SME performance, LnProfit, LnROA and LnROI, respectively. The significant F-ratio at $p< 0.01$ in model 4 indicates that market orientation explained significant amounts of variance in SME performance, LnProfit, LnROA and LnROI. The significant amounts of variance explained in SME performance by market orientation may also imply that if we could measure the level of market orientation by 100 percent, we could be able to explain accurately by 48.6 percent the level of SME performance.

In light of these findings, this study argues that the firm's emphasis on market orientation is a strategic choice to create a pool of potential opportunities when successfully exploited, leads to a firm's competitive advantage. Teece (2007:1324) confirms this observation by arguing that the "probability that innovation will be successful commercially relies on how a developer of innovation understands the needs of customers". This argument suggests that market orientation generate information that leads to identify the most feasible and relevant opportunities targeting to address outstanding customers' needs. In this case, sustained culture of market orientation in a firm is likely to build opportunity-seeking behaviour that continuously generates strategic information which helps to create innovation as a response to fill market gaps.

These findings support a previous argument that market orientation facilitates to improve creativity and innovation by offering more value to customers (Zhou *et al.,* 2005:54; Keh *et al.,* 2007:607). Consistently, the literature suggests that market knowledge increases a firm's ability to discover and exploit opportunities through introduction of innovative products and services (Tang & Murphy, 2012:41). This is possible due to the fact that customer orientation exposes challenges confronting customers which in most cases constitute real market opportunities that form a

starting point for entrepreneurs to create new discoveries in the effort to address those challenges. Loasby (2010:1302) supports this argument and emphasized that problem confronting customers which never found solutions form a potential source of opportunities. These arguments emphasized a need to go beyond articulable needs when generating strategic market information, which is the focus of market orientation.

Examining the adjusted R^2 in model 4, it shows a slight decline of 0.002 (0.2%) from the R^2 value. This suggest that if the data were collected from the population rather than a sample, the amount of variance explained in SME performance by market orientation could be less by 0.2 percent. This study considers that a difference of 0.2 percent is small to limit generalization of the findings beyond the sample. In other words, these findings can confidently be generalized to the entire population of interest.

SUMMARY

The empirical results presented enough evidence to reject the null hypothesis Ho3(a) and accept an alternative hypothesis Ha3(a) that state *"market orientation explain significant amount of variance in SME performance"*.

The significant amount of variance explained in SME performance may suggest that market orientation is amongst predictors that explain SME performance, profit, ROA and ROI well. It also implies that market orientation generates the most feasible and relevant strategic information which highlights the market gaps of which, when successful exploited, are likely to offer products and services that are acceptable to customers.

2: Amount of variance explained in SME performance by entrepreneurial orientation

The variance explained in SME performance by the entrepreneurial orientation, was presented in model 5 (Table 6.40). Model 5 shows that when only entrepreneurial orientation is included in the model, it explained 11.3%, 16.6%, 8.4% and 6.6% of variance in SME performance, LnProfit, LnROA and LnROI, respectively. The significant F-ratio at $p< 0.01$ suggests that the model fitted data and entrepreneurial

orientation well, which accounted for a significant amount of variance in the outcome variables namely SME performance, LnProfit, LnROA and LnROI. These findings also may suggest that if we could measure the level of entrepreneurial orientation accurately by 100 percent, we could be able to explain accurately the level of SME performance by 11.3 percent.

These findings suggest that although the amount of variance explained in the overall SME performance and the three measures of SME performance, namely: LnProfit, LnROA and LnROI were significant when only entrepreneurial orientation was included in model 5, this amount is low compared to the amount of variance accounted for in SME performance by market orientation (Table 6.40, model 4). These findings may suggest that market orientation is the best predictor to explain SME performance compared to entrepreneurial orientation. This may not necessarily suggest low level of entrepreneurial orientation in the firm. However, Tang *et al.* (2008) reported that entrepreneurial orientation has a U shape, which implies that it changes over time along with the growth cycle. This provides an opportunity for further research to examine how both entrepreneurial orientation and market orientation varies over time along the growth trajectory. It will be interesting to examine the trends of changes occurring over time in the growth cycle of which the result will add value to understand which strategy is appropriate at a certain stage of the business life cycle.

The adjusted R^2 for SME performance in Table 6.40 model 5, shows a slight decline by 0.003 or 0.3% for SME performance from the R^2 square computed from the sample. This suggests that if data were collected from the whole population rather than a sample the estimated variance could be less by 0.3% from what it is reported in this study. Such a small percent of variation suggests that the conclusion drawn from this study can be generalized across the population of interest.

SUMMARY

As long as entrepreneurial orientation explained significant amounts of variance in SME performance, these findings provide adequate empirical evidence to reject the null hypothesis Ho3(b) and accept an alternative hypothesis Ha3(b) that state *"entrepreneurial orientation explain significant amount of variance in SME performance"*.

These findings revealed that although entrepreneurial orientation explained significant amount of variance in SME performance, this amount is relatively low compared to what is accounted for by market orientation. This may not necessarily imply low level of entrepreneurial orientation; it might be explained by the dynamic nature of entrepreneurial orientation that varies overtime along the business growth cycle.

3: The amount of variance explained in SME performance by networking capability

The amount of variance explained in SME performance by the networking capability was also examined to test hypothesis 3(c). Model 6 in Table 6.40, when only networking capability was considered, was able to explain 7.6%, 14%, 4.5% and 4.1% of SME performance, LnProfit, LnROA and LnROI, respectively. These findings suggests that if the study gauge and understand the firm's level of networking capability by 100 percent it is possible to explain accurately the amount of variance in SME performance by 7.6 percent and the remained 92.4 percent of variance can be explained by other factors that were not included in the model. Comparing with the amount of variance explained by market orientation and entrepreneurial orientation, it is clear that networking capability explained the least amount of variance in SME performance.

However, the adjusted R^2 = 0.073 declined by 0.003(0.3%) from the R^2 = 0.076 which is considered acceptable for generalization of the conclusions of this study to the entire population of interest.

SUMMARY

The empirical results indicate that the networking capability explained significant amount of variance in SME performance, which provide sufficient empirical evidence to reject the null hypothesis Ho3(c) and accept an alternative hypothesis Ha3(c) that state *"networking capability explained significant amount of variance in SME performance"*.

However, comparing the amounts of variance explained in SME performance by the networking capability from what was explained by the market orientation and entrepreneurial orientation, it is clear that networking capability explained the least amount of variance.

7.2.4.2 Amount of variance explained by interactions of dimensions of SER

The results in Table 6.40 model 4, 5 and 6 shows that market orientation, entrepreneurial orientation and networking capability, respectively explained significant amounts of variance in SME performance when considered separately. This raised the fourth research question presented in section 7.1.

Questions 4: *Is there interaction among the composite dimensions of SER? And whether these interactions explain significant amount of variance in SME performance?*

In this regard, it was deemed necessary to examine if there is a synergic relationship among dimensions of SER, namely: market orientation, entrepreneurial orientation, and networking capability and if the interaction of the dimensions account for a significant amount of variance in SME performance. The analysis is aimed at testing hypothesis 4(a) and 4(b).

Ho4(a) *Interaction of market orientation and entrepreneurial orientation does not explain significant amount of variance in SME performance.*

Ha4(b) *Interaction of market orientation and entrepreneurial orientation explain significant amount of variance in SME performance.*

The interaction between market orientation and entrepreneurial orientation were examined to test hypothesis 4(a). Model 8 in Table 6.41 shows an increase in R^2=0.498 in SME performance as a result of interaction between market orientation and entrepreneurial orientation compared to R^2=0.486 in model 7, Table 6.41 when only market orientation was considered. This suggests that the interaction of market orientation and entrepreneurial orientation improves the ability of the model to explain the amount of variance in SME performance. The recorded significant F-ratio at $p< 0.01$ for the interaction of market orientation and entrepreneurial orientation in model 8, Table 6.41 suggests that the model was able to fit the interaction between the two dimensions of the SER well and explained significant amounts of variance in the SME performance. These findings may also imply that in events where firms combine market orientation and entrepreneurial orientation, it improve the ability to predict the amount of variance that can be explained in the SME performance.

To identify the individual contribution of the two dimensions of the SER, namely: market orientation and entrepreneurial orientation in the amount of variance explained in SME performance, this study examined the R^2 that explain collective amounts of variance explained in SME performance by the interaction of market orientation and entrepreneurial orientation, R^2 change and the F-ratio change which represents a unique amount of variance explained in SME performance as a result of adding an entrepreneurial orientation in the model. Model 8, Table 6.41 shows that the variance explained by interaction was R^2= 49.8% of this amount the R^2 change 0.012 and significant F-ratio change at $p< 0.01$ suggests entrepreneurial orientation explained significantly 1.2% of variance in the total variance, explained by the interaction in the SME performance and the difference of 48.6% is explained by market orientation. Consistently, the Beta (β) value and t-statistics as recommended by Pallant (2011:161) and Field (2009:239) in Table 6.41 model 8 shows that market orientation recorded relatively higher and significant β-value and t-statistics compared to entrepreneurial orientation in SME performance. These findings suggest that although both dimensions accounted significant contributions in SME performance, market orientation had a relatively bigger contribution compared to entrepreneurial orientation.

This may suggest that market oriented firms generate market intelligence pertaining to change in customers' and competitors' behaviours, identify current, future, and latent needs of customers, and the strengths and weakness of competitors. This strategic information is crucial to identify unsaved market demands. Zhou *et al.* (2005:54) pointed out that market orientation unearth problems, confronting customers, that form a basis for potential opportunities where entrepreneurial firms based on these opportunities create innovations to offer value to customers. Loasby (2010:1302) supports this argument suggesting that problems can be a source of opportunities if viewed in a positive way in which any response intended to solve the identified problem is likely to be associated with innovation.

In light of the above, these findings may suggest that market orientation generates strategic information that form a seedbed of opportunities from which entrepreneurial firms use entrepreneurial mindsets to analyse the information, identify the most feasible opportunities and pro-actively take risks implied to seize these opportunities through innovations as a response to address customers' needs or challenges. Although innovation was not captured by the measurement tool in this study, previous studies associated successful innovation in SMEs with good performance (Cakar & Erkurk, 2010:325). First mover advantage is associated with proactive behaviour to achieve product success, capturing market share and increase the long term viability of the firm (Alloca & Kessler, 2006:326) before competitors imitate technology or processes to produce the same products or offer the same services. In this view, entrepreneurial oriented firms, driven by first mover advantage, focuses to fill market gaps identified by market orientation.

While previous studies emphasized entrepreneurial orientation as responsible for opportunity seeking (Ireland & Webb, 2007b:59; Ireland, 2007:9; Ireland *et al*., 2003a:966), this study argues that previous studies underplayed the role of market orientation on opportunity seeking behaviour. This study views entrepreneurial orientation as more driven toward opportunity exploitation which is more advantage seeking than opportunity seeking. The proactive behaviour in entrepreneurial orientation is associated with a response to fill market gaps through a series of innovation identified through market orientation. Lumpkin and Dess (2001:434) make this clear by stating, proactive "refers to how firms relate to market opportunities by

seizing initiatives and leading in the marketplace. On the other hand the innovations developed to fill the market gaps is a response to exploit opportunities that subsequently build the competitive advantage of the firm. Hitt *et al*. (2007:4) confirms this argument, by stating that a firm has competitive advantage when it implements a strategy that competitors are unable to duplicate, or find too costly to imitate.

However, if competitive advantage is not defended by incumbent, with time competitors are able to copy or imitate. In this case, this study argues that once entrepreneurial oriented firms create competitive advantage through innovation, they take a competitive aggressive posture to defend their firm's competitive advantage against competitors who enters to compete in the same industry or as a strategy to sustain competitive advantage. These arguments suggest that entrepreneurial orientation is more oriented towards opportunity exploitation, which creates and sustain a competitive advantage of a firm. In this view, a sustained entrepreneurial orientation culture in a firm is likely to create advantage seeking behaviour essential to sustain a competitive advantage. But the sustainability of competitive advantage depends on continuous opportunity seeking which relies on the market orientation through generation of market information. This argument may also explain the recorded highly significant correlation between market orientation and entrepreneurial orientation (r = 0.340**) in Table 6.21. This suggests that market orientation and entrepreneurial orientations are related constructs which work together to sustain SME performance.

While entrepreneurship literature has not given much attention on market orientation with the argument that entrepreneurial orientation through innovation and pro-active behavior is also able to create new markets by being the first to offer new products or services (Li *et al.,* 2008:119), this study argues that pro-activeness and innovation cannot replace the role played by the market orientation in opportunity seeking. The pro-activeness and innovation are responsive to strategic market information in an effort to fill market gaps identified through market orientation. It should be clear that an entrepreneur do not act blindly, but are driven by opportunities. Opportunities are gaps left in the market by the marketers, in this regards, market orientation is well placed to generate information which leads to identify these gaps and pro-activeness is a response to fill these gaps through innovation. Viewing it this way, will imply that

while pro-activeness is a response to opportunities, innovation is a means to fill the market gaps.

SUMMARY

The significant amount of variance explained in SME performance by the interaction of market orientation and entrepreneurial orientation provide adequate evidence to reject the null hypothesis Ho4(a) and accept an alternative hypothesis Ha4(a) that states *"interaction of market orientation and entrepreneurial orientation explain significant amount of variance in SME performance"*.

This shows that whenever entrepreneurs adopt a proactive behavior to develop innovations, it is the first response to seize opportunity in the market place to fill market gaps before competitors. In this case, one will say market orientation generates strategic market information which shows market gaps or opportunities. These market gaps signals a response from the entrepreneurial orientation through pro-activeness and innovation which is a means to fill market gaps, a process that leads to competitive advantage. In this case, the sustainability of the competitive advantage will depends on how the two strategies market orientation and entrepreneurial orientation are sustained to foster simultaneous opportunity seeking behaviour and advantage seeking behaviours.

The literature indicates that market orientation and entrepreneurial strategies requires resources for effective implementation (Covin & Slevin, 1991:15; Ireland *et al.,* 2009:33). However, based on the fact that SMEs are constrained with resources (Kropp & Zolin, 2005:1; Verhees & Meulenberg, 2004:137), which may limit execution of the two strategies, this study considered networking strategy as an appropriate strategy for firms confronted by resource scarcity to access resources from networking partners. But due to the fact that networking may not always be beneficial, especially when potential partner raise suspicion of losing strategic information and competences to partners (Kale *et al*., 2000:232), this study assumed that to benefit from networking, a firm should have the ability to initiate and maintain the relationship that has mutual benefits amongst networking partners. According to Walter *et al*. (2006:541), such ability is referred to as networking capability that is

constituted by four dimensions namely: relational skills, internal communication, coordination and partner's knowledge.

While previous studies have reported a positive relationship between networking and SME performance (George *et al*., 2001:280), according to the literature review, no study has examined the interaction between networking capability, and the two SER composite dimensions, namely market orientation, and entrepreneurial orientation. In this regard, amongst other reasons, this study was planned to fill the gap by answering the fourth research question presented in section 7.1, which is whether there is a synergic relationship among the three composite dimensions of SER; market orientation, entrepreneurial orientation, and networking capability and if such interaction account for significant amounts of variance in SME performance. It is from this context the hypothesis 4(b) was formulated.

Ho4(b) *Interaction of market orientation, entrepreneurial orientation, and networking capability does not explain significant amount of variance in SME performance.*

Ha4(b) *Interaction of market orientation, entrepreneurial orientation, and networking capability explain significant amount of variance in SME performance.*

The amount of variance explained in the overall SME performance by the interaction of market orientation, entrepreneurial orientation and networking capability was examined to test hypothesis 4(b). The R^2=0.501, with the significant F-ratio at p< 0.01, suggests that model 9 on Table 6.41 fitted the interaction of the three dimensions of SER well and explained significant amounts of variance in SME performance. However, the R^2 change = 0.016, and F-ratio change = 12.868, for model 9 were only significant at p< 0.01 for LnProfit and were not significant for the overall SME performance, LnROA and LnROI. This suggests that the networking capability accounted significant amounts of variance only in Lnprofit. Since the networking capability explained significant amounts of variance in SME performance, LnProfit, LnROA and LnROI, when considered alone in Table 6.40 model 4, it suggest that the amount of variance explained by the networking capability was overshadowed by the interaction of market orientation and entrepreneurial orientation.

This study speculates that the reason behind this behaviour is that networking capability, being responsible for initiation and sustaining strategic relationship with networking partners, may need time to realize its benefits. This might be attributed by the fact that a firm which intends to network, requires to study and understand partners with relevant resources and capabilities that match the firm's needs. The second step is for a firm to build trust among partners so that they are willing to share strategic resources and capabilities. All these aspects require time to be established before benefits are realized. In view of these arguments, it is possible that when a firm engages in market orientation and entrepreneurial orientation, the benefits of networking capability may lag behind due to the nature of the process it goes through to establish a strategic relationship. Since this study adopted a cross sectional research design, it may not be able to capture the benefits that can be offered by the networking capability in the long run.

In light of the above, it might be of interest for future research to carry out a longitudinal study and examine the way networking capability varies over time and the way it relates with the market orientation and entrepreneurial orientation. This will broaden our understanding on the benefits of networking capability that may unfold over time. This is crucial because the literature has indicated that entrepreneurial orientation has a U shape, which implies that it changes along the industry life cycle and it is not linear as it used to be conceptualized (Tang *et al.,* 2008). Since entrepreneurial orientation and market orientation are resource consuming strategies and resource constrained SMEs may adopt networking to complement resource needs, it might be of interest to understand how networking capability behaves as entrepreneurial orientation varies over time.

These findings may also suggest that a combination of three composite dimensions of SER enrich our understanding on how a firm can attain simultaneous opportunity seeking and advantage seeking behaviour to sustain a competitive advantage. It will be of interest, if future research explores the context in which entrepreneurs decide to use a certain combination of strategies. This will throw light on decision making when an entrepreneur is exposed to a certain context to know which combination of strategies is appropriate to respond to a given environmental challenge.

SUMMARY

The significant amounts of variance explained in SME performance provide empirical evidence to reject the null hypothesis Ho4(b) and accept an alternative hypothesis Ha4(b) that state *"interaction of market orientation, entrepreneurial orientation, and networking capability explain significant amounts of variance in SME performance"*.

Despite of networking capability accounting only significant amounts of variance in LnProfit in the interaction with market orientation and entrepreneurial orientation, it is argued that its benefits in other long term performance measures such as LnROA and LnROI may be realized over time, hence a need to carry out a longitudinal research design and examine how the networking capability relates with the other dimensions in the business life cycle and monitor benefits associated with the networking capability as they unfold over time.

7.2.5 Control The Influence Of Firm Size, Type Of Industry And Level Of Education

The demographic variables in several occasion reported to confound the relationship between independent and dependent variables. For example, previous studies identified a firm size (Rauch *et al*., 2009:781), age of the firm, and type of industry to influence firms' growth (Verhees & Meulenberg, 2004:147; Walter *et al*., 2006:554). In the case of this study, a set of confounding variables (gender, age of onwers or managers, and level of education of owner/manager, age of firm, the firm size, and type of industry) were identified and subjected in Multiway ANOVA to examine their influence in the individual dimensions of SER, namely: customer orientation, competitor orientation, pro-activeness, risk taking, competitive aggressiveness, relational skills, coordination and partners knowledge (Table 6.31 – Table 6.33).

During the analysis, three demographical variables namely firm size, type of industry, and level of education of owners/managers were identified to have significant influence in the individual dimensions of SER (Table 6.31 – Table 6.33). Since the individual dimensions of SER were combined to form composite dimensions of SER

and the composite dimensions of SER accounted significant amounts of variance in SME performance (Table 6.40 & Table 6.41), it raised another question.

Question 5: *If demographic variables such as firm size, type of industry and level of education of owners/managers are controlled, is the three composite dimensions of SER, namely: market orientation, entrepreneurial orientation and networking capability still able to explain significant amounts of variance in SME performance?*

To answer this question hypothesis 5(a), 5(b) and 5(c) were advanced.

Ho5(a) *Firm size has no influence on the total amount of variance explained in SME performance by the collective dimensions of SER.*

Ha5(a) *Firm size has influence on the total amount of variance explained in SME performance by the collective dimensions of SER.*

Ho5(b) *Type of industry has no influence on the total amount of variance explained in SME performance by the collective dimensions of SER.*

Ha5(b) *Type of industry has influence on the total amount of variance explained in SME performance by the collective dimensions of SER.*

Ho5(c) *Level of education of owner/manager has no influence on the total amount of variance explained in SME performance by the collective dimensions of SER.*

Ha5(c) *Level of education of owner/manager has an influence on the total amount of variance explained in SME performance by the collective dimensions of SER.*

The sequential multiple regression analysis controlled the influence of the demographic variables namely firm size, type of industry and level of education of owner/manager in SME performance. Model 10 in Table 6.42, that involved only the

demographic variables namely firm size, education, type of industry, shows that the demographical variables collectively explained 22.7% of variance in SME performance, 23.7% in LnProfit, 23.8% in LnROA and 23.7% in LnROI. The significant F-ratio suggests that the model fitted data (demographic variables) well and explained significant amounts of variance in SME performance. Of the three demographic variables, the significant beta value (β= - 0.377**) for a firm's size and the level of education (β = 0.482**) of owners/managers suggests that they accounted significant amounts of variance in SME performance. With the highest t-statistics (t = 8.115) in the level of education of the owners/managers indicating that the level of education accounted more variance compared to a firm's size.

The negative beta (β) value recorded between firm size and the SME performance implies that small size firms registered higher performance than larger firms (Table 6.42 model 10). Moreno and Casilla (2007:82) observed similar paterns and reported that small firms grow faster than their counterpart larger firms. A possible explanation for this observation might be that the small firms are not tied with technological inertial and bureaucracy, which are common in larger firms. As a result, in dynamic environment where events are changing fast, small firms are flexible in decision making to take advantage of emerging opportunities created by the dynamic environment that leads to better performance compared to larger firms.

Examining the influence of demographic variables in the ability of dimensions of strategic entrepreneurial response, namely: market orientation, entrepreneurial orientation, and networking capability to account for the amounts of variance in SME performance, model 11, 12 and 13 were introduced while controlling the effects of the demographic variables, firm size, type of industry and the level of education of owners/managers. This was intended to rule out the influence of the demographical variables in the amounts of variance explained in SME performance by the dimensions of SER, namely: market orientation, entrepreneurial orientation and networking capability.

The R^2 change (ΔR^2) and significant F–ratio change in Table 6.42 model 11 (ΔR^2= 0.352, ΔF = 231.786, p< 0.01) and model 12 (ΔR^2= 0.013, ΔF = 8.949, p< 0.01) indicates that despite of controlling the influence of a firm's size, type of industry and

level of education of owners/managers, the market orientation and entrepreneurial orientation, respectively were able to account for a significant amount of variance in SME performance. However, the R^2 change (ΔR^2) (ΔR^2= 0.011) and significant F–ratio change (ΔF = 9.361, p< 0.01) in Table 6.42 model 13, shows that networking capability was able to explain significant amounts of variance in LnProfit and no significant amounts of variance in the overall SME performance, LnROA and LnROI. These findings followed similar paterns of results presented in Table 6.41 model 9, before controlling the influence of a firm size's, type of industry and level of education, suggesting that the variance explained in the overall SME performance and the three measures of performance, namely: LnProfit, LnROA and LnROI by the dimensions of SER is irrespective of the level of education of the owner/manager, the firm's size, and type of industry. These findings generally implies that although a firm's size and the level of education of owners/managers accounted significant amounts of variance in SME performance, it had little influence on the amount of variance explained by the dimensions of SER.

SUMMARY

From these findings it can be concluded that the composite dimensions of SER were able to explain significant amounts of variance in SME performance irrespective of the firm's size, type of industry, and level of education of the owner/manager. With these findings:

This study failed to reject null hypothesis Ho5(a) that state *"the firm size has no influence on the total amount of variance explained in SME performance by the collective dimensions of SER".*

This study also failed to reject the null hypothesis Ho5(b) that state *"the type of industry has no influence on the total amount of variance explained in SME performance by the collective dimensions of SER".*

There is no empirical evidence to reject the null hypothesis Ho5(c) that state *"the level of education of owner/manager has no influence on the total amount of variance explained in SME performance by the collective dimensions of SER".*

7.2.6 Best Predictor Of SME Performance

To answer the question of which is the best predictor of SME performance amongst the three dimensions of SER, namely: market orientation, entrepreneurial orientation, and networking capability, the sequential multiple regressions analysis was used to assess the ability of the three composite dimensions of strategic entrepreneurial response (SER) to explain the amount of variance in SME performance. According to Pallant (2007:147) the sequential multiple regression has the power to control the effect of the previous entered predictor(s), when assessing the last entered predictor in the model, and isolate the unique contribution of the last predictor.

In Table 6.41, model 7 where only market orientation was included, the R^2 was 0.486 suggesting that market orientation alone explained 48.6% of variance in SME performance which by far is higher compared to the R^2 square change recorded in Table 6.41, model 8 and 9 where entrepreneurial orientation (R^2 = 1.2%) and networking capability (R^2 = 0.3%) were added respectively. The higher value of R^2 recorded in market orientation suggests that market orientation accounts for a large amount of variance in SME performance compared to the other two predictors, namely: entrepreneurial orientation and networking capability. This may suggest that thorough understanding of market orientation enhance better explanation of SME performance than the understanding of entrepreneurial orientation and networking capability. This may also suggest that firms emphasizing on market orientation are likely to continuously create a pool of opportunities which, when exploited successfully, create competitive advantages that lead to a firm's performance.

SUMMARY

The empirical results show that market orientation accounted a high amount of variance in SMEs compared to entrepreneurial orientation and networking capability. This suggests that market orientation is the best predictor to explain amounts of variance in SME performance. With the emphasis on market orientation, it is likely to generate strategic information that creates a pool of the most feasible opportunities. Entrepreneurial oriented firms targeting to exploit opportunities generated through market orientation, are likely to build a competitive advantage of the firms. In this case, combining and sustaining a market orientation and an entrepreneurial orientation culture in the firm, it is likely to build opportunity seeking and advantage seeking behaviours.

7.3 CHAPTER SUMMARY

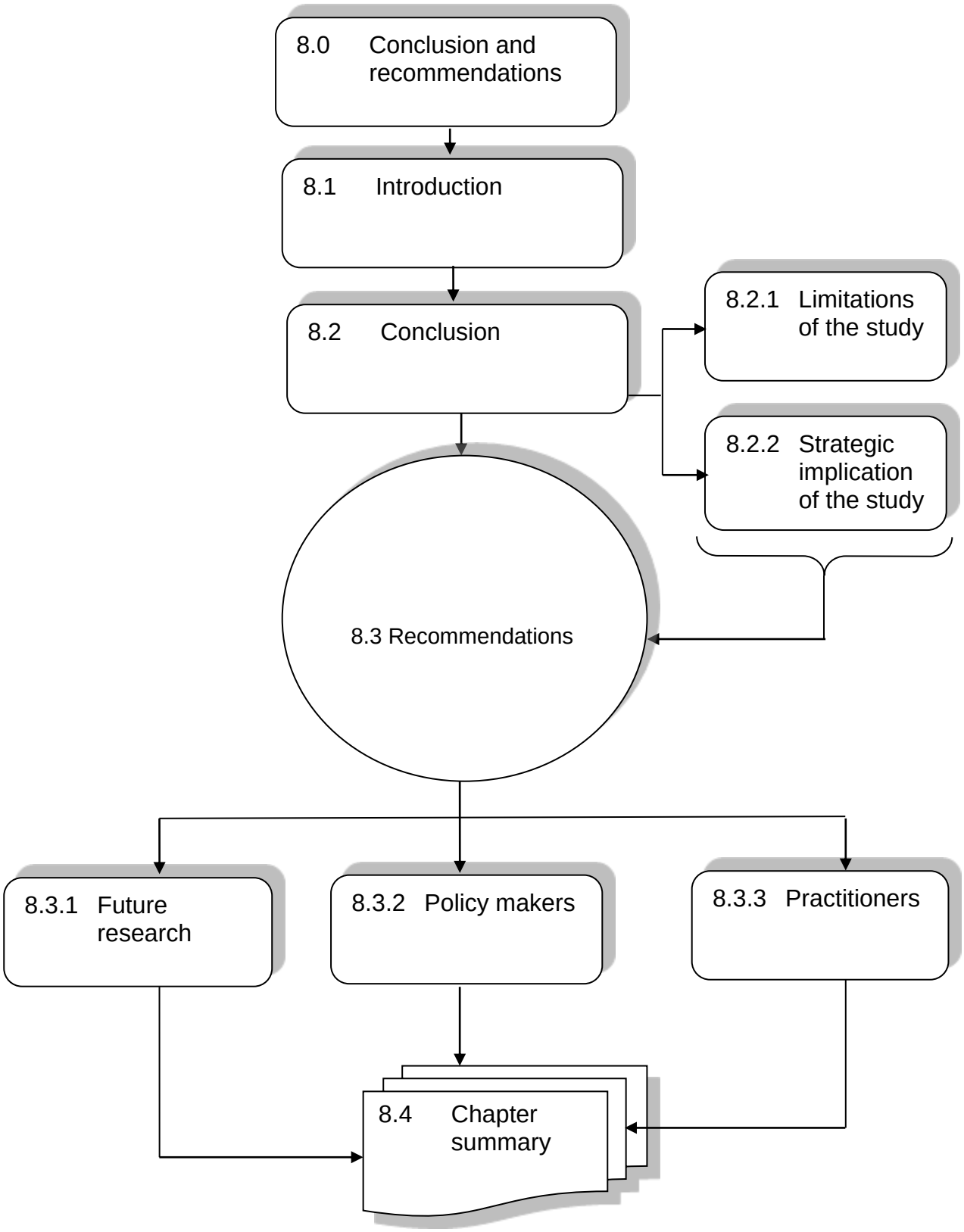
This chapter discussed the implication of findings reported in chapter six. These findings revealed that convergence of the nine factors into a single component, confirmed measuring a single construct “strategic entrepreneurial response”. Findings show that the emphasis on market orientation, especially on customer orientation and competitor orientation, generates strategic information which reduces the risk implied in the business. Findings also revealed that a pro-active firm engaged in networking may not use relational skills, internal communication and partners’ knowledge possibly because these dimensions involve exchange of strategic information that may jeopardize the firm’s competitive advantage in case the strategic information lands in the hands of rivals. However, the coordination was observed to be beneficial for a pro-active firm, possibly due to the efficient use of resources.

While the individual composite dimensions of SER, namely: market orientation, entrepreneurial orientation and networking capability individually accounted significant amount of variance in SME performance, the interaction of the three dimensions revealed that only market orientation and entrepreneurial orientation accounted significant amounts of variance in SME performance, with the larger amount of variance accounted for by market orientation. The networking capability accounted for a significant amount of variance only in LnProfit and no significant amount of SME profit, Lnprofit, LnROA and LnROI. These findings compel to

speculate that market orientation generate strategic information, which identify market gaps, that set a context for an entrepreneurial oriented firm to pro-actively identify and exploit the most feasible opportunities to fill the identified market gaps. This study concludes that sustained market- orientation and entrepreneurial orientation cultures in the firm, is likely to build opportunity seeking and advantage seeking behaviours.

Controlling the influence of demographic variables, namely: type of industry, firm size and level of education of owners/managers on the amount of variance explained in SME performance, these findings revealed that although the firm size and level of education accounted significant amount of variance in SME performance, the amount of variance had no influence on the amount of variance explained by the market orientation, entrepreneurial orientation and networking capability. With the market orientation consistently explaining reatively higher and significant amounts of variance in SME performance compared to EO and NWC it is identified to be the best predictor to explain SME performance. The next chapter presents conclusion and recommendation on the way forward.

CHAPTER LAYOUT – CHAPTER EIGHT



CHAPTER EIGHT

8 CONCLUSION AND RECOMMENDATIONS

8.1 INTRODUCTION

This chapter presents conclusion and recommendations of this study. The conclusion briefly highlights the major findings; limitations that confronted this study and the implication of the findings in the strategic entrepreneurship. The recommendations are categorized into three subsections, namely: future research, policy makers and practitioners. The future research suggests future areas for further studies to broaden our understanding on outstanding issues which were relevant, but beyond the scope of this study. The policy marker's recommendations are proposed actions to be taken by the policy makers to enhance the development of entrepreneurship and SMEs to take advantage of their potentials. The recommendations for the practitioners are proposed actions to be taken by the SME operators to improve and sustain SME performance.

8.2 CONCLUSION

This study acknowledges the argument that a growing competitive environment in contemporary times has created pressure on both SMEs and large firms. However, this pressure is much more felt by SMEs which are confronted by resource scarcity. Based on the importance of SMEs in the socio-economic development, a need arise to ensure their competitive ability and survival. In dynamic and competitive environment firm's performance singled out as a critical determinant for the survival and competitiveness of the firm. While there is consensus among scholars on appropriateness of the strategic entrepreneurship to address challenges posed by the dynamic and competitive environment, practically firms face challenges to simultaneous combine opportunity seeking and advantage seeking behaviours to create and sustain a competitive advantage necessary for SME performance.

While there have been several efforts made by previous studies to address this challenge, this study revealed that strategic entrepreneurship is still at an infancy stage and has not developed robust constructs to ensure simultaneous opportunity seeking and advantage seeking behaviours, which subsequently fosters sustainable

firm performance. This study argues that the emphasis placed by previous studies on the appropriateness of the entrepreneurship to foster opportunity seeking behaviour, underplayed the role of market orientation necessary for opportunity seeking. The argument is based on the fact that opportunity is the gap left in the market by the current players currently operating it. In this understanding, market orientation focused on customers, competitors and other factors that may influence customers and competitors' behaviour, is well placed to enhance opportunity seeking behaviour, rather than entrepreneurial orientation, which is inclined to the exploitation of opportunities that leads to a competitive advantage.

Drawing from the conceptual gap, this study examined the role of three constructs, namely market orientation, entrepreneurial orientation and networking capability which were all together conceptualised as the composite dimensions of the strategic entrepreneurial response (SER) to foster simultaneous opportunity seeking and advantage seeking behaviours in order to enhance SME performance. These findings confirmed a significant positive relationship between composite dimensions of SER and SME performance suggesting that the emphasis on market orientation, entrepreneurial orientation and networking capability fosters SME performance. The interaction of the three composite dimensions of SER: market orientation, entrepreneurial orientation and networking capability, recorded significant amounts of variance in SME performance with only market orientation and entrepreneurial orientation accounting significant amounts of variance in SME performance. This may suggest that entrepreneurial firms that engaged in networking which involves exchange of strategic resources and capabilities, is cautious to lose competitive advantage to networking partners. This is a situation that delays the realization of networking benefits.

In light of the above, coupled with the recorded significant positive relationship between entrepreneurial orientation and market orientation, it suggests that the market orientation and entrepreneurial orientation are related constructs and support each other to foster SME performance. This suggests that a firm's emphasis on market orientation generate strategic information which forms a context for entrepreneurial oriented firms to choose the most feasible opportunity to exploit by creating a set of innovations as a response to fill market gaps. In this view, this study

argues that market orientation is more premised on opportunity seeking and entrepreneurial orientation is more oriented towars exploitation of opportunities which is associated with advantage seeking. In this case, sustaining market orientation culture and entrepreneurial orientation culture build the opportunity seeking and advantage seeking behaviours of the firms necessary to sustain competitive advantage.

8.2.1 Limitations Of The Study

In the course of the study, this study faced some constraints that deserve mentioning. The main limitations were:

- The sample data for this study were collected in Tanzania environment and may not necessarily reflect other contexts, thus generalisation of the findings need to be taken cautiously, while acknowledging the potential environmental and cultural differences.

- The data collected is solely that of the sample business owners/managers which may not necessarily represent the image of the SME industry in the country. However, since it is well acknowledged that day to day business decisions that subsequently determine SME performance are made by owners/managers, for the sake of this study, it is assumed that owners'/managers' opinions adequately served the purpose of this study.

- The cross sectional research design adopted for this study may not have captured the dynamic nature of dimensions of entrepreneurial orientation that reported to vary based on the stage of the industrial lifecycle, but a longitudinal research design may add value to monitor over time the behaviour of the dimensions of SER and ascertain at what stage they change and what impact they have on SME performance.

- While SER is essential to both small and large firms, based on the fact that both small and large firms face environmental challenges, and may require strategic response to cope with the environmental dynamics, the sample for this study was limited to SMEs of which these findings may not necessarily reflect the situation in larger firms.

Despite these limitations, this study contributes to additional insights about the relations of the dimension of SER in SME performance, based on the assumptions that the collected information reflects the state of affairs of the SMEs' industry in the study area. In view of this argument, the next section presents the strategic implication of the findings.

8.2.2 Strategic Implication Of The Findings

Findings of this study have strategic implications that contribute to the effort of previous studies to address the challenges posed by the dynamic and competitive environments. Previous studies indicate that the intersection of entrepreneurship and strategic management form strategic entrepreneurship which is appropriate for a firm to attain its performance. The argument is based on the fact that the competitive advantage of the firm depends on how firms exploit today's competitive advantages while exploring future competitive advantage by continuous opportunity identification. In this case, there have been arguments that opportunity seeking and advantage seeking behaviours are domains of entrepreneurship and strategic management, respectively. However, recently the literature has acknowledged that firms face challenges to combine opportunity seeking and advantage seeking behaviours to sustain a competitive advantage in a dynamic environment.

This study argues that the emphasis on entrepreneurship as a source of opportunity is overstated and underplayed the role of market orientation as a source of strategic information that forms a source of potential opportunities on which entrepreneurial firms through entrepreneurial mindset, analyses the information, identify and /or create a series of innovation to respond to challenges confronting their customers. These findings show that the emphasis on market orientation reduces the risk implied in the business and promotes proactive behaviour that is associated with the firm's performance. Strategic market information increases the ability of the firm to discover and exploit the most relevant opportunities due to a clear understanding of the market dynamics. In this case, a sustained market orientation culture is likely to build opportunity-seeking behaviour that continuously generates strategic information that leads to create a pool of demand-driven opportunities. It is therefore logical to argue that a proactive firm responding to opportunities identified through market

orientation is likely to develop successful innovations that lead to a competitive advantage.

In light of the above, the argument suggests that entrepreneurial orientation is more inclined towards the exploitation of opportunities associated with the creation of a competitive advantage. However, the sustainability of competitive advantage depends on continuous opportunity seeking which relies on market orientation through continuous generation of strategic information. This shows that market orientation and entrepreneurial orientation are closely related constructs which depends on each other to create and sustain SME performance. While the entrepreneurship literature has not given much attention to the aspect of market orientation with the advanced argument, this study argues that a sustained market orientation and entrepreneurial orientation culture are likely to build opportunity-seeking andadvantage seeking behaviours to bridge the gap of firms, simultaneously executing opportunity- and advantage-seeking behaviours to create and sustain performance.

For SMEs, which are confronted by scarcity of resources, are likely to opt for networking to complement resources and capabilities needs, findings revealed that amongst the dimensions of networking capability, relational skills is appropriate for long term SME performance, while coordination and partners' knowledge are appropriate for short term SME performance. Conversely, internal communication is appropriate for both short and long term SME performance. These findings imply that a firm that is aimed at short term performance may consider combining coordination partners' knowledge and internal communication. But, a long term performance emphasis should be on relational skills and internal communication. In the event where firms target both short and long term performance, a combination of all four dimensions of networking capabilities is crucial. These findings are crucial because they highlight which set of dimensions of networking capability a firm should emphasize on when aiming at short- or long term performance.

Also findings revealed that networking capability reduces the risk in the business initiatives. This suggests that as a firm build networking capability, it is likely to strengthen its capacity to access strategic resources from partners, disseminate

strategic information within the firm where employees learn new capabilities in order to attain competitive advantages. The internal communication build internal competence through exchange of strategic information acquired from outside or within the firm. The built competence reduces the perceived risk as entrepreneurs tend to examine the level of risk, based on the capabilities at hand.

While it was expected that interaction of three dimensions of SER could significantly explain significant amounts of variance in SME performance, surprisingly networking capability did not account for a significant amount of variance in SME performance. This suggests that the benefits of networking capability may lag behind when an entrepreneurial firm adopt market orientation and entrepreneurial strategies. The possible reason for this is that when an entrepreneurial firm intends to create networking, it needs time to identify the appropriate potential partners with relevant resources and capabilities to address the customer's needs. This process requires time to build trust and confidence among networking partners before the exchange of strategic information and capabilities takes place. In this case, it is reasonable to assume that the benefits of network capability might be realized in the long term, but not in the short term.

It was also of interest to examine the interaction and the amount of variance explained in SME performance in order to identify the best predictor to explain SME performance. Consistently, market orientation explained significantly higher amounts of variance in SME performance compared to entrepreneurial orientation and networking capability. In this view, this study argues that the emphasis on market orientation is a strategic choice to generate strategic information that leads to identifying the most feasible and relevant opportunities that provide a context for entrepreneurial oriented firms to choose and exploit strategic opportunities to create and sustain competitive advantages. It is from this context, this study identified market orientation as the best predictor to explain SME performance. The next section presents recommendations on the way forward.

8.3 RECOMMENDATIONS

This study proposes a set of recommendations which are grouped into three categories, namely: for future research, practitioners, and policy makers.

8.3.1 Future Research

- The argument that pro-activeness is appropriate for short term performance such as profit generation requires further research to substantiate. . It will be of interest if future research adopts longitudinal designs to examine the relationship between pro-activeness and SME performance. It will also add value if future researches identified the most reliable performance measures which cater for both long and short term performance.

- This study associated the prevailing weak regulatory environment and inadequate business support services in the study area with the risk aversive among entrepreneurs. This argument is based on the fact that in weak regulatory environment and inadequate business support services, entrepreneurs feel insecure to venture in new business opportunities. However, further research to establish the relationship between environmental regulation, business support services and SME performance, might be beneficial to confirm this argument.

- Future research should consider examining the context in which coordination of resources is beneficial to the firm. For example, it will be interesting to understand at which level in the continuum of the environmental dynamic coordination can be beneficial for a firm, or at which stage in the business life cycle coordination is likely to yield positive results to a firm. Such findings will enhance efficient utilization of resources and optimize benefits from business ventures.

- While interaction of dimensions of SER accounts for a significant amount of variance in SME performance, it is not clear in which context entrepreneurs use a certain combination of dimensions of SER when responding to environmental challenges. It is of interest if future research explores this avenue, to enable practitioners to understand the appropriate combination of dimensions of SER when facing a certain challenge.

- The measurement of SER was drawn from market orientation, entrepreneurial orientation and networking capability. However, the measurement instrument did not capture some of the defining factors such as internal coordination, innovation and autonomy. Based on the importance of these items in SER, this study considers important for future study to refine the measurement instrument to be able to capture a full spectrum of the dimensions and examine their behaviours.

- While this study was limited to SMEs, future research should focus on large firms to examine the suitability of the constructs to enhance simultaneous opportunity- and advantage-seeking behaviour and if they are appropriate to foster performance.

8.3.2 Policy Makers

- The open market economy has changed the way businesses are managed and pose severe pressure on small and large businesses. In environments where business support services and regulatory framework are weak, like in Tanzania, entrepreneurs feel threatened and are at risk to operate. In this view, this study recommends that the government should strengthen a regulatory environment and create an environment where the private sector can operate in partnership with the government to provide business support services to entrepreneurs.

- The shift from protective policies (socialist) to the open market economy provides a lot of opportunities in the private sector in Tanzania. However, the lack of entrepreneurial skills amongst entrepreneurs is a stumbling block for entrepreneurs to face challenges posed by rivals. In this case, this study suggests that the government should create an enabling environment to build an entrepreneurial culture amongst entrepreneurs to be able to take advantage of unfolding opportunities.

- This study observed several efforts made by the government to support SMEs in Tanzania. However, the supporting institutions are less coordinated to create a common force that can bring impact to the development of SME and entrepreneurship. In this view, the government should consider improving the coordination of the business support services to create impact in the SME sector.

8.3.3 Practitioners

- Pro-activeness is observed to enhance short term performance in SMEs. This suggests that firms targeting short term performance may emphasize on a pro-activeness posture to generate profit. This might be crucial especially when a firm is at growth stage in a growth trajectory where profit and other resources are expected to support the fast growth of a firm.

- Market orientation, especially customer orientation and competitor orientation, generates strategic information which enables entrepreneurs to take informed decisions, which subsequently lowers the business' risks implied in the business opportunities. A low business risk environment fosters a pro-active behavior which is associated with short term performance, such as profit. In this view, this study suggests that as a short term solution, SME owners/managers that operate in a risk environment should focus on market orientation to lower business risks and take advantage of emerging business opportunities.

- Market orientation generate strategic information which forms a potential source of opportunities in which an entrepreneurial oriented firm use entrepreneurial mindset to analyze the information and identify and or create the most feasible opportunities targeted to offer more value to customers. In this case, this study views that sustaining a market orientation culture and entrepreneurial orientation culture is likely to enhance opportunity seeking and advantage seeking behaviours. A combination of market orientation and entrepreneurial orientation may enhance simultaneous execution of opportunity seeking and advantage seeking behaviours.

- For resource constrained firms operating in competitive environment, intending to adopt a proactive behaviour when planning to adopt networking as a strategy to complement resources and capability, needs should focus on coordination of resources and capabilities to maximize benefits resulting from a networking relationship.

8.4 CHAPTER SUMMARY

This study concludes that, while strategic entrepreneurship literature has not given much attention to market orientation with the argument that entrepreneurial oriented firms are able to create new markets by being the first to offer new products or services, this study argues that entrepreneurial orientation through pro-active behaviour is the response to strategic market information in an effort to fill market gaps identified through market orientation. The argument is anchored in the fact that entrepreneurs do not act blindly, they are driven by opportunities. Opportunities being gap left in the market, it is logical to argue that market orientation is well placed to generate strategic market information which leads to identify market gaps and entrepreneurial orientation through pro-activeness is a response to fill these gaps which leads to a firm's competitive advantage. Viewing this way, will imply that sustaining a market orientation and entrepreneurial orientation culture will build an opportunity seeking and advantage seeking behaviours essential to create and sustain a firm's performance.