

An empirical Analysis of the Effect of Entrepreneurial Orientation on Firm Performance of Auto Artisans in the Cape Coast Metropolis

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Abstract

The health of a country's automobile industry is closely related to the robustness of its auto artisans and this is true about the Ghanaian economy. This paper examined the influence of entrepreneurial orientation on business performance of auto artisans in the Cape Coast Metropolis. The stratified sampling method was used to select respondents. Data was obtained through self-administered questionnaire. Regression analysis was employed to test the relationships between entrepreneurial orientation and firm performance. The findings revealed a significantly positive individual and composite influence of the entrepreneurial orientation dimensions on performance. It was recommended that auto artisans in the Cape Coast Metropolis should make the most out of the technical training centre project for artisanal engineering provided by the government by enrolling for refresher training courses. Furthermore, employees and/or apprentices must be allowed to explore creative alternatives in the performance of assigned tasks.

Keywords: Entrepreneurial orientation, performance, auto artisans

1. Introduction

The spread of globalization has created a competitive business environment, which has affected the way entrepreneurs create and sustain their business operations and strategy. Entrepreneurial orientation has therefore been seen as a key driving force for a free market economy. According to Schumpeter (1934), entrepreneurial orientation is the process by which people or organizations discover and exploit new business opportunities which exist within a market, revitalise existing businesses, or introduce new products or processes. There is a considerable debate about the scientific domain of entrepreneurial orientation as there is lack of agreement on many key issues regarding what constitutes entrepreneurial orientation and how it relates to performance. Scholars have studied entrepreneurial activities and its impact on organizational performance but, the factors affecting these entrepreneurial activities are wide-ranging and therefore exploring gaps in entrepreneurial orientation research is an important task for researchers.

It has been argued that the main problem of small businesses including firms owned by auto artisans in developing countries is not their small size but their isolation, which hinders access to markets, as well as to information, finance and institutional support (Liedholm & Mead, 1987; Swierczek & Ha, 2003). In Ghana, auto artisans are predominantly found in the informal urban centres and as such industry-specific information on them is rarely available. According to Amakye (2010), the auto artisanal sector has received a lot of attention from the Ghana Government. Thus, a formal training centre that will propel the sector and also build the capacity of artisan have been built at Suame, Kumasi to train artisans in modern designs and components in the car manufacturing industry (Frimpong, 2009).

Various studies have examined the influence of entrepreneurial orientation on firm performance in developed economies and in large organizations (Awang, Khalid, Yusof, Kassim, Ismail, Zain & Madar, 2009; Covin & Slevin, 1986; Lumpkin & Dess, 1996; Kreiser, Marino & Weaver, 2002). Whereas these streams of research focused on entrepreneurial orientation of established firms and in various sectors of the economy, those of small auto artisanal firms are still lacking. This research therefore seeks to fill that gap by evaluating the individual and composite influence of the entrepreneurial orientation dimensions on business performance of auto artisans in the Cape Coast Metropolis.

The paper is divided into five sections. Section one introduces the study, followed by a discussion of the literature in the second section. The third and fourth sections describes the methodology and results and discussion respectively. The conclusions, recommendation, and directions for future research end the paper.

2. Literature Review

Stevenson (1983) defined entrepreneurship as the process by which individuals either on their own or inside organizations pursue opportunities without regard to the resources that they currently possess. The essence of entrepreneurial behaviour therefore consists of identifying opportunities and putting useful ideas into practice. The task for this behaviour can be accomplished by either an individual or a group and typically requires creativity, drive, and willingness to take risk.

Miller (1983) appears to offer the earliest operationalisation of the entrepreneurial orientation concept. He clarifies the construct of entrepreneurial orientation by defining an entrepreneurial firm as one that engages in product marketing innovation, undertakes somewhat risky ventures, and is first to come up with proactive innovations, beating competitors to the punch. Thus, entrepreneurial orientation according to Miller (1983) consists of five dimensions: proactiveness, risk taking, innovativeness, competitive aggressiveness, and autonomy. *The five dimensions propounded by Miller, will form the basis for this research and are discussed in the ensuing paragraphs.*

Schumpeter (1934), viewed entrepreneurship as an economic process of creative destruction by which wealth is produced as existing market structures are interrupted by the opening of new products that move resources away from old firms and cause new firms to expand. This innovative behavior by the entrepreneur is seen by Schumpeter as the prime endogenous cause of change (development) in the economic system (Van Praag, 1999). Drucker (1985) on the other hand, describes innovation as the medium entrepreneurs may chart to produce new products and business opportunities. The most vital attribute of entrepreneurs is the willingness to depart from the traditional methods of doing business. As posited by Covin and Miles (1990), entrepreneurship would not subsist devoid of innovation. In their opinion, innovation is a firm's propensity to shore up new ideas, conducting tests and ingenious processes earlier than business rivals. Innovation and creativity are conditions inherent in the role of entrepreneurship and reflect a firm's desire to develop methods that may result in new products, services, or technological processes. According to Dess and Lumpkin (2005), innovativeness is a process; innovation is the result of that process. Innovation comes in many different forms; technological innovativeness consists primarily of research and engineering efforts aimed at developing new products and processes. Product-market innovativeness includes market research, product design and innovations in advertising and promotion (Scherer, 1980). Shane (1994) recognized that innovation requires the acceptance of uncertainty because innovation relates to a tolerance of risk and change. Some ways to identify an organization innovativeness level are: financial sources invested in innovation, human resources committed with innovation activities, new products or services, the frequency of changes in products and services lines (Miller & Friesen, 1982; Covin & Slevin, 1989).

Proactiveness is considered a search for opportunities, the anticipation on the introduction of new products and services and the action to create changes and modeling the environment by anticipating tendencies. It is a must for entrepreneurial orientation because it suggests a forward perspective view followed by innovative activities (Lumpkin; Dess, 1996). Venkatraman (1989) suggests that proactivity refers to the process of anticipating and acting on future needs by seeking new opportunities and according to Lumpkin and Dess (1996), proactivity is crucial to entrepreneurial orientation because it suggests forward-looking actions. To conclude, proactiveness is achievement oriented, emphasizing initiative taking, anticipating, creating change, predicting evolution towards a critical situation, and early preparation prior to the occurrence of an impending uncertainty or risk. Proactiveness reveals itself through actions - a formulation of 'stated beliefs' and the implementation of these 'beliefs'.

Proactiveness as a dimension of entrepreneurial orientation is regarded by several researchers as a forward-looking perspective reflected in action taken by firms in anticipation of future demand (Miller, 1983; Covin & Slevin, 1989; Dess & Lumpkin, 1996). In the same light, Rauch, Wiklund and Frese (2004) put forward that proactiveness is future-looking and opportunity-seeking perspectives which enable firms to introduce new products and services ahead of their competitors and also acting in anticipation of future demand. According to Antoncic and Hisrich (2001), proactiveness is the extent to which organizations attempt to lead rather than follow competitors in such key business areas as the introduction of new products or services, operating technologies, and administrative techniques.

Risk taking has long been associated with entrepreneurship. Cantillon (1734) defined entrepreneurs as a person who bears the risk of profit or loss, risk taking has been viewed as a fundamental element of the entrepreneur and entrepreneurship. Risk-taking has been considered in past research as a distinctive characteristic or dimension of entrepreneurship within existing firms (Covin & Slevin, 1989; Lumpkin & Dess, 1996). This stance of the entrepreneur as a risk taker continued to gain acceptance throughout the twentieth century, as McClelland (1965) posited that practically all theorists agree that entrepreneurship involves by definition, taking risks of some kind.

Risk, as the possibility of loss, may be viewed as an inherent characteristic of innovativeness, new business formation, and aggressive or proactive actions of existing firms. The risk taking dimension is strongly connected to innovativeness and according to Mello and Leão (2005), both risk taking and innovativeness are more common in the entrepreneurial practices development. Risk taking captures the level of risk reflected on decisions on resources allocation, as well as on the market and product choices, reflecting, in a certain way, the criteria and the standard of decision taking in organizational level (Venkatraman, 1989). Lumpkin and Dess (1996) stated that organizations that have an entrepreneurial orientation are normally characterized by a risk taking behavior, assuming greater financial commitments looking forward to obtaining high results through market opportunities grasp.

Competitive aggressiveness is considered as a strong struggle to overcome the competitors; it is characterized by a combative attitude or aggressive response, which seeks a better positioning in the market or defeat threats. Competitive aggressiveness, which has a relation with the organization's propensity, intensely and directly challenges its competitors reaching better market position, seeking to overcome them. Chene Hambrick (1995) deal with the competitive aggressiveness as being an organization's trend in responding aggressively to the competition actions, looking forward to reaching competitive advantage, dominating it with responsiveness. Similarly, Lumpkin and Dess (2001) characterized it as threat responses. For Venkatraman (1989), the competitive aggressiveness is the position adopted by a company, through allocating sources in order to gain positions in a specific market faster than its competitors. It can be based on product innovation, market development, and high investment to improve market char and to achieve a competitive position. Covin and Covin (1990) point out that some evidences of competitive aggressiveness can be reached when evaluating the management attitude as far as competitiveness. This evidence can also reflect the use of non-conventional competition methods instead of traditional or reliable ones (Lumpkin & Dess, 1996).

Research by Burgelman (1983) and Mintzberg (1973) suggest that entrepreneurial behaviour is often generative and creative, involving the autonomous actions of organizational actors. Thus entrepreneurs have the autonomy to make strong and decisive decisions to guide the direction of their business. Lumpkin and Dess (1996) argued that entrepreneurial orientation dimensions include innovativeness, proactiveness, risk taking, autonomy, and competitive aggressiveness. Lumpkin and Dess further defined autonomy as independent action by an individual or team aimed at bringing forth a business concept or vision and carrying it through to completion. In general, it means the ability and will to be self-directed in the pursuit of opportunities. In an organizational context, it refers to action taken free of stifling organizational constraints

A number of empirical studies (Barrett & Weinstein, 1999) have supported that *entrepreneurial orientation had a positive impact on firm performance* (Runyan, Rodney, Droge & Swinney, 2008; Fairouz & Hirobumi, 2010). According to Wiklund (1999), the effect of entrepreneurial orientation on business performance is particularly strong among small businesses because smaller size most likely fosters flexibility and innovation. In the same light, Covin and Slevin's (1986) study also suggested that entrepreneurial orientation is related to performance among small firms in hostile environments. Figure 1 shows the relationship amongst the entrepreneurial orientation dimensions and firm performance. Based on the preceding discussions, the following hypotheses are offered for testing:

- H₁: Innovativeness amongst auto artisanal firms is positively related to business Performance
- H₂: Proactiveness amongst auto artisanal firms is positively related to business Performance
- H₃: Risk-taking amongst auto artisanal firms is positively related to business performance
- H₄: Autonomy amongst auto artisanal firms is positively related to business performance
- H₅: Competitive aggressiveness amongst auto artisanal firms is positively related to business performance.
- H₆: Entrepreneurial orientation amongst auto artisanal firms is positively related to business performance.

3. Methodology

The descriptive-inferential survey design was used for the research. This was deemed appropriate for the study because of three reasons. In the first place, the study involves the description of the dimensions that influence entrepreneurial orientation of auto artisans and also establishes how the dimensions individually and compositely influence their business performance. Secondly, Saunders, Lewis and Thornhill (2007), indicated that the survey

strategy is perceived as authoritative by people in general and is both comparatively easy to explain and to understand. Finally, data obtained through the survey with a questionnaire (when it is used as data collection instrument) are standardised, allowing easy for comparison.

3.1 Population and sample

The study was conducted at Siwdu, a suburb in the Cape Coast Metropolis, the capital town of the Central Region. Siwdu is a hamlet of auto artisans in the Region. A comprehensive list of registered auto artisans in Siwdu was unavailable and so with assistance from the Vice President of the Auto Artisans Association of Siwdu the following statistics were unraveled after a headcount; population size is 297 auto artisans, out of this number, 98 do not own a place due to congestion and had to perch with those with permanent places of business and 26 do not have either employees or apprentices. At the end of this preliminary exercise, the final population size arrived at for this study was 173 auto artisans after deducting those auto artisans without a place of business and those without either employees or apprentices.

The population was then stratified into four; auto mechanics, auto welders, auto electricians and auto sprayers. Each of the auto artisans in the study population was labeled and simple random sampling technique was employed to ensure each auto artisan had an equal chance of being selected for the study. Specifically, the lottery method was used to select each auto artisan from each stratum to constitute the sample frame. A sample size of 118 auto artisans was obtained by using the formula developed by Kejcie and Morgan (1970).

3.2 Instrumentation

The data was collected through the use of self-administered questionnaire. The questionnaire was made up of 40 items grouped in four sections – A, B, C, and D. Section A elicited information on the business details of the respondents. Section B is subdivided into five parts (Part I-V) to gather information on the entrepreneurial orientation dimensions. Part I and II sought data on innovativeness and proactiveness respectively. Parts III and IV also gathered data on risk-taking and autonomy, whilst Part V covered information on competitive aggressiveness. Section C is made up of four performance indicators; revenue, profit level, creating jobs and ability to fulfill family responsibilities, whereas section D elicited demographic details of the population.

The entrepreneurial orientation dimensions were measured with a five-point Likert-type rating scale, ranging from strongly agree to strongly disagree. On the other hand, the business performance indicators were measured with a five-point Likert scale, also ranging from very good to very poor. In order to ensure a high return rate, the instrument was administered personally by the researcher.

3.3 Reliability and Validity Test

The Cronbach's coefficient alpha (α) was used in this study to determine the mean reliability coefficient for the dimensions of entrepreneurial orientation and business performance. Fraenkel and Wallen (2000) assert that for research purposes, a useful rule of thumb is that reliability should be at least .70. The results of the validity and reliability tests are depicted in Table 1.

Factor analysis was employed in testing for these two categories of construct validity. Principal component extraction method was adopted with orthogonal rotation method. The orthogonal method was used because it effectively produces discriminant validity by attempting to maximise the factor loading on some variables and minimise the loadings on others. Also it is more frequently used in practice (Hair, Bush & Ortinau, 2003). Of the different orthogonal rotation method Varimax was adopted since it minimises the number of variables that have high loadings on each factor and simplifies the interpretation of the factors.

Before applying factor analysis to examine the construct validity of the entrepreneurial orientation scale, Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy and Bartlett test of sphericity were performed to assess the appropriateness of using factor analysis. The former is a measure to quantify the degree of correlations among the variables. This index ranges from 0 to 1. The closer the value to 1, the more significant the correlations among the variables. Bartlett test of sphericity provides the statistical probability that the correlation matrix has significant correlations among at least some of the variables. By conducting these tests, the result of KMO test is .681 and the significance level for Bartlett test is $p < .001$, both suggesting a high degree of correlations among the scale items. It is hence concluded that factor analysis is an appropriate approach to assessing construct validity of the entrepreneurial orientation scale. The results show that the factor loading was more than 5, specifically, 8

components were loaded. This implies that all the dimensions of entrepreneurial orientation can be combined into one construct analyse as a unilateral-dimension.

The appropriateness of applying factor analysis was confirmed by both the KMO index (0.600) and Bartlett's test ($p < 0.001$). The results show that all four items used to measure business performance converged on one common construct as only one component was extracted. The factor loadings of the items ranged from 0.691 to 0.888 suggesting high convergent validity. Hence, the study combined all the four items for performance as one construct.

3.4 Data Collection

Before data collection, the researcher held a meeting with the vice president and a section of the executives of the Auto Artisans Association of Siwdu to explain the purpose of the study. The purpose of this meeting was to create rapport between the researcher and the executives whose members will serve as respondents for the study. The reason for the approach was to make sure that appropriate responses were elicited from the respondents. The respondents were assured of confidentiality in order to inspire them to respond to the items without any suspicions. A discussion was held with auto artisans of the various stratum selected for the study to agree on a convenient time to administer the instrument. Due to the low educational background of the respondents, the researcher had to read and occasionally interpret some of the questions in the local dialect (Fante) to enable the respondents understand the full meaning of the questions. All the respondents were thoroughly guided by the researcher to complete the questionnaire and after which, the questionnaire was retrieved immediately. Out of the 118 questionnaires administered, 114 were retrieved representing 96.61% response rate.

4. Results and Discussions

The business and demographic characteristics were analysed using frequencies and percentages.

The results of the demographic characteristics indicate that majority of the auto artisans (97.4%) prefer to own and manage their business whilst a smaller number (2.6%) will rather employ managers. The auto artisans were all (100%) males in that none of the respondents was a female. This outcome could be attributed to the fact that women shy away from the auto artisan profession due the labour intensity and the hazardous environment in which auto artisans operate and also, the societal perception that, the auto artisan profession is primarily a male job. Thus, this result reveals the deep-rooted socio-cultural beliefs and practices which forbid women from taking up occupation as auto artisans (Edjah & Edjah, 2009). The ages of auto artisans in the Cape Coast Metropolis show that out of the 114 auto artisans, 77.2% were between 25 and 44 year, whilst 15.8% were between the ages of 45 and 54. This gives a picture of a youthful adult population of auto artisans in the Cape Coast Metropolis because only seven per cent are 50 years and above. This outcome affirms the argument that, the job requirements of auto artisans is labour intensive which requires youthful agility.

With regards to educational level, the study showed that majority (56.1%) of the auto artisans had JHS/Middle school education, whilst 13.3% and 9.9% had Senior High School and Commercial/Vocational/Technical education respectively. Another 2.6% had Post Secondary Diploma as well as only 1.8% had never been to school. An overwhelming preference by the auto artisans for sole proprietorship (86.8%) as the legal form of their business as oppose to (13.2%) who rather desired partnership. This shows that the auto artisans prefer to control their businesses than to share income with others.

In terms of the number of years of ownership and/or management of business, majority (57%) of the auto artisans have owned and/or managed their business for more than 10 years, whilst another 36% had been associated with their business between 7 and 10 years. Only 7 % had owned and/or manage their business for the last 3 to 6 years. This outcome shows that majority of the auto artisans at Siwdu have been in the profession for a very long time. With regards to the number of employees and apprentices, all the auto artisans (100%) had employees fewer than 4. Whilst, majority of them (95.5%) had apprentices fewer than 5 people and only 3.5% of them had apprentices between 6 and 9 people. This shows that the auto artisans prefer apprentices to employees.

4.1 Hypotheses testing

A regression analysis was used to test the relationships between the entrepreneurial orientation dimensions and performance of small auto artisanal firms. The results are depicted in Table 2.

The first hypothesis was formulated to determine the relationship between innovativeness and business performance. The results indicate that there is significantly positive relationship between innovativeness and business performance ($r = 0.507$, $p = 0.000$). This suggests that auto artisanal firms, who invest financial resources in innovation and also

committed to introducing new products and services, are likely to experience increased profit levels. In addition, firms that encourage new ideas from any workers regardless of their status are expected to increase their sales revenue.

Hypothesis two indicated a positive relationship between proactiveness and business performance. It was observed from the analysis that there is significantly stronger positive relationship between proactiveness and business performance ($r= 0.554$, $p=0.000$). Hence, the second hypothesis that “proactiveness is positively related to business performance of the study” is accepted. Auto artisanal firms who take an aggressive posture relative to competitors, recognize and facilitate customers need well in advance, and have an intensive drive towards the achievement of organizational goals are likely to experience increases sales revenue and subsequently improve profits. This finding is consistent with the claims by Rauch, Wiklund, Lumpkin and Frese (2005) that improved proactiveness will reflect directly in higher business performance.

Hypothesis three postulated a positive relationship between risk taking and business performance. The findings showed a weak but positive relationship between risk taking and firm performance ($r=0.177$ and $p=0.059$). This means that auto artisanal firms are risk averse and therefore reduce their commitment to cutting-edge products and technologies, thereby decreasing the firm's level of innovation. Furthermore, they shy away from borrowing heavily, and/or committing significant resources to ventures in uncertain environments.

The fourth hypothesis was formulated to determine the relationship between autonomy and business performance. The study revealed that there is a stronger positive relationship between autonomy and business performance ($r= 0.586$, $p=0.000$). This suggests that firms that allow freedom for both individual and team work, whilst allowing the owner/manager to maintain a strong central authority are able to improve sales revenue. This is consistent with Miller's (1983) findings which indicated that high performance was associated with chief executives who maintained strong central authority and also acted as the firm's knowledge leader by being aware of emerging technologies and markets.

Hypothesis five presented a positive relationship between competitive aggressiveness and business performance. The results indicate that there is significantly positive relationship between competitive aggressiveness and business performance ($r=0.511$, $p=0.000$). Firms who typically adopt a bold, aggressive posture to maximise the probability of exploiting potential opportunities have the tendency to be ahead of others in introducing novel ideas or products. Besides, those that are willing to be unconventional rather than rely on traditional methods of competing are likely to increase sales, improve their revenue situation and thereby create jobs.

This sixth hypothesis was formulated to determine whether there is a relationship between entrepreneurial orientation and business performance. The results show a stronger positive influence of entrepreneurial orientation ($r=.0748$, $p=0.000$) on the business performance of auto artisans in the Cape Coast Metropolis. This implies that if all the entrepreneurial orientation dimensions are combined into one construct and regressed on the business performance of auto artisans, there will be significant improvement on their business performance. This finding is consistent with studies by Wiklund (2003) which suggest that the effect of entrepreneurial orientation on business performance is particularly strong among small businesses since smaller size businesses usually foster flexibility and innovation.

5. Conclusions and Recommendations

The study sought to examine the individual and composite influence of the dimensions of entrepreneurial orientation on business performance of auto artisans in the Cape Coast Metropolis. The study recorded significantly positive relationship between each of the entrepreneurial orientation dimension and business performance, except risk-taking which recorded a weak positive relationship with performance. This means that improving each of the dimensions will logically lead to an improvement in the business performance of auto artisans. In the same light, the dimensions compositely recorded a significantly positive relationship with business performance.

Base on the findings it is recommended that as the auto artisans desire for absolutism over their business, they must create an encouraging work environment devoid of stringent systems to enable employees/apprentices explore creatively in the performance of assigned tasks. In addition, auto artisans should always update their knowledge with recent technological additions in the auto mobile industry so as to be equipped with the requisite skills needed to serve their old and potential customers who acquire sophisticated vehicles. In furtherance of the above, the executives of the auto artisans association of Siwdu should be efficient and vibrant by establishing contacts with other auto artisan associations in Ghana or other countries to enable the exchange of ideas and information. Most particularly, the auto artisans should make the most out of the technical training centre project for artisanal

engineering in Ghana by enrolling for refresher training. These technical training centres are located in Cape Coast and Takoradi with its headquarters in Suame, Kumasi.

5.1 Directions for Future Research

The findings of the study gave certain indications with regard to possible directions for further research. Firstly, the research framework and hypotheses developed for this study could be expanded and modified to include the influence of potential moderator variables such as firm age, capital, size and environmental dynamism. Secondly, this study did not examine the entrepreneurial orientation and performance relationship between each of the four groups of auto artisans; mechanic, welders, electricians and sprayers. A comparative study can be conducted between these groups.

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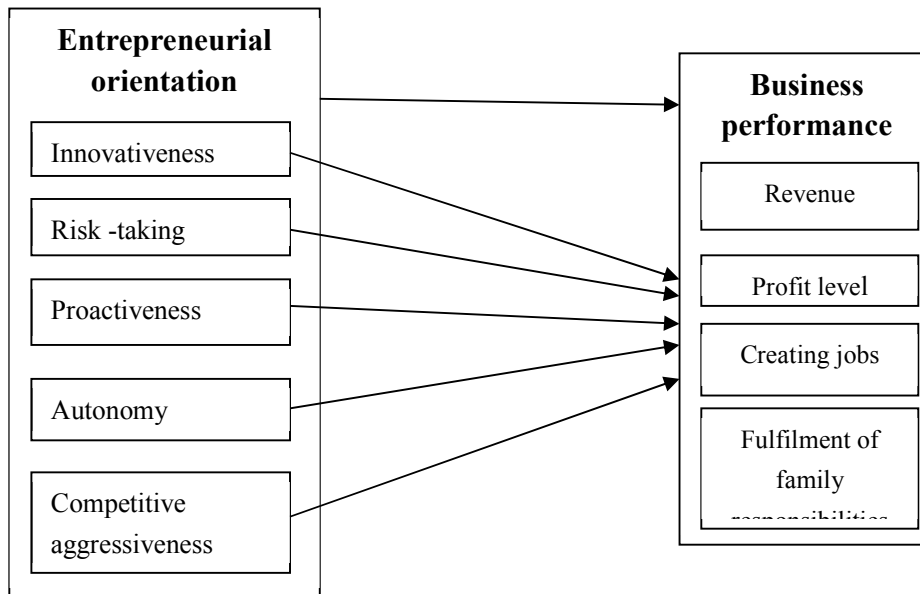


Figure 1: A conceptual framework illustrating the influence of entrepreneurial orientation on business performance.

Figure 2 illustrates the individual and composite influence of the entrepreneurial orientation dimensions on business performance with the variables of innovativeness, risk-taking, proactiveness, autonomy and competitive aggressiveness as determinants of entrepreneurial orientation practice. Revenue, profit levels, job creation and owner/managers' fulfilment of family responsibilities were used to measure business performance.

Table 1: Cronbach's alpha coefficients

Constructs	Cronbach's Alpha
Innovativeness	.803
Proactiveness	.741
Risk-taking	.717
Autonomy	.701
Competitive Aggressiveness	.702
Business Performance	.701

Source: Field Data (2011)

The results in Table 1 show that each entrepreneurial orientation dimension as well as business performance recorded a Cronbach's alpha greater than 0.7. This implies that all the constructs are reliable and can be used in this study.

Table 2: Regression Analysis of Entrepreneurial Orientation Dimensions and Business Performance.

Factors of study	R	R-Square	Beta	t	Sig
Innovativeness	.0507	.257	.0507	6.226	0.000
Proactiveness	0.554	0.307	.0554	7.051	0.000
Risk-taking	.0177	0.031	0.177	1.905	0.059
Autonomy	.0587	.0343	.0586	7.644	0.000
Competitive Aggressiveness	0.586	0.343	.586	7.644	0.000
Entrepreneurial orientation	0.748	0.559	0.748	11.927	0.000

Dependent Variable: business performance *p< 0.05

Source: Field data, 2011.

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