

# The Impact of Business Development Services on Entrepreneurial Orientation and Performance of Small and Medium Enterprises in Kenya

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## ABSTRACT

This study examined the influence of business development services on entrepreneurial orientation and performance. The study analyzed a total of 97 small and medium enterprises in Kenya out of a sample of 150 organizations. Data was collected in Nairobi county through a combination of drop and pick methods. Cronbach's alpha was used to measure reliability of the instrument during a pilot phase of the study. The collected data was analyzed in Statistical Package for Social Sciences using descriptive, correlation and multiple linear regressions techniques. The results show that there is a positive relationship between business development services and performance. They also demonstrate that business development services affect entrepreneurial orientation of the studied firms. However, the results indicate that entrepreneurial orientation does not mediate the relationship between business development services and performance. In conclusion, the firms studied and their similar counterparts should strive to access and use business development services. They should also adopt entrepreneurial inclination to improve how business development services may assist them achieve better performance. Recommendations and areas for further studies are also suggested.

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## Introduction

### 1.1 Background

The important role of small and medium enterprises (SMEs) in a country has been demonstrated in studies to include job creation, poverty alleviation and contribution to the overall economic development (Beck, Demircuc-Kunt, & Levine, 2005; Atieno, 2012; Fatoki, 2012). In Kenya, the SME sector has been recognized by the government through efforts to develop and strengthen appropriate institutional frameworks. For example the government's Sessional Paper Number 2 of 2005 "recognizes the need for incentives for investments that enhance the development of linkages between SMEs and larger enterprises" (Atieno, 2012:26). These linkages are necessary as a way of boosting efficiency and effectiveness of SMEs and their growth. However, despite promoting these linkages, the important role of SMEs is still threatened by their general underperformance.

Research (Omar, Arokiasamy & Ismail, 2009) observe that a major reason for SME underperformance is due to SME inability to build necessary internal capacity to deal effectively with diverse and hostile business requirements. SMEs operate in complex and dynamic business environments characterized by perpetual changes due to globalization hence require greater efficiency and effectiveness (Raymond, Bergeron & Blili, 2005). This increases the need for SMEs to engage in practices that can enhance their competitive position in the market-place. Therefore, managements of SMEs seek solutions for high quality products and services through increased productivity by adopting customer-centric and pro-market practices. To adopt such practices, a business development approach to managing SMEs referred to as business development services (BDS) is said to exist for firms with high appetite for market access, product development, negotiated procurement arrangements, alternative financing, infrastructure facilities and advocacy for favourable policies.

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Literature (Gathenya, Bwisa & Kihoro, 2011) suggest that business development services (BDS) may be used as a possible antidote to the problems facing SMEs seeking to achieve higher productivity and better quality for increased efficiency, effectiveness and sustained competitive advantage. Earlier Miehlabradt and McVay (2003) observed that although BDS is almost always needed by all SMEs, its efficacy had not received much attention. Thus there is great importance in extending the frontiers of knowledge regarding its effect in manufacturing SMEs. Machuki (2011) reports that firms in Kenya often experience severe external pressures arising from the need to satisfy customer and market demands, an argument which may be extended to SMEs since they operate in similar environments, implying that they require aspects of BDS. Therefore, used as an intervention, BDS can be of great value in increasing productivity and hence competitiveness of SMEs in Kenya. In order to accelerate BDS assimilation, entrepreneurial approach to management may be critical in organizations.

An entrepreneurial approach known as entrepreneurial orientation (EO) is said to manifest in organizations that embrace innovation of products and markets, engage in risky undertakings and proactively access markets before their competitors (Lumpkin & Dess, 1996; Fatoki, 2012). According to Zainol and Ayadurai (2011) EO can be useful; for developing new products and processes, increasing investments in situations of risk and uncertainty, and entering markets ahead of competitors, thus having first-mover advantage. Fatoki (2012:121) observes that "although EO is almost always used to describe a situation occurring in large organizations, it is just as essential for smaller firms." This implies that there is great interest in establishing how EO manifests in SMEs. Wanjau, Macharia and Ayodo (2012) point out that in Kenya, SMEs continue to face severe constraints making them lag behind. This suggests that SMEs operate in a harsh rather than conducive environment. Therefore, EO may be an important ingredient in accelerating BDS assimilation in SMEs thereby improving their performance.

Empirical findings regarding the effect of BDS on enterprise performance remain few and diverse. Some studies for example McCormick (1999) and Gathenya, Bwisa and Kihoro (2011) report that enterprises with access to BDS exhibit better performance than their counterparts that do not. On the contrary, Esim (2001) found that the relationship between BDS and firm performance was on the borderline owing to the fact that BDS are mainly supply rather than demand driven. This contradiction casts doubt on whether BDS has a positive effect on firms or if it is always an appropriate intervention for SMEs. BDS use involves making decisions which are often risky especially in uncertain situations as SMEs operate in (Edgecom & Thetford, 2010). Pett and Wolff (2010) report that making risky decisions characterized with uncertainty require entrepreneurial orientation. This implies that entrepreneurially oriented SMEs are likely to make pro-BDS decisions and benefit from them. Otenyo-Matanda (2008) finds a positive relationship between certain aspects of BDS and some individual measures of entrepreneurial orientation. Entrepreneurial orientation can enable management make the right decisions to access external services for supporting their enterprises. This suggests that the need for BDS can lead a firm to make risky decisions in an attempt to innovate through product and market development in order to have first-mover advantage through pro-activeness.

Empirical literature in Africa, particularly Kenya, however shows that there is a dearth of studies focusing on the effect of BDS in organizations, especially in relation to EO in SMEs. Brijlal (2008) examined the gap in BDS provision in Western Cape of South Africa. Mehta, Virjee, Evans and Wathobio (2007) assessed BDS for community managed small water enterprises in Kenya. Few studies (Gathenya, Bwisa & Kihoro, 2011; Kimando, Sakwa & Njogu, 2012) have analyzed the effect of business development services on performance of SMEs in Kenya. These studies found positive relationship between BDS or some of its aspects and performance of SMEs. However, no known empirical study in Kenya has examined whether BDS positively affects entrepreneurial orientation of organizations and whether EO can mediate the relationship between BDS and performance.

Based on insights from contingency theory (Burns & Stalker, 1961; Lawrence & Lorch, 1967), it is often important to examine the nature and effect of contingencies in organizations and their behavior (Lumpkin & Dess, 1996; Achcaoucaou, Bernado & Castan, 2009). This study sought to investigate how EO influences the effect of BDS on SME performance in a contingency framework and aimed to answer questions regarding: Does BDS have a direct effect on SMME performance; is there are a link between BDS and EO; what role does EO play in this link?

## **1.2 Objectives of the Study**

The objectives of this study were to:

1. Establish whether business development services have an effect on performance of SMEs
2. Investigate the relationship between business development services and entrepreneurial orientation
3. Determine the role of entrepreneurial orientation in the link between business development services and SME performance

## **2. Literature Review**

### **2.1 Organizational Performance**

Small and medium enterprises fall within a broad spectrum of organizations. Organizations have been defined as independent legal entities organized within the context of workplace technology and that produce and sell products and services (Ulrich, 1984). Studies however present different definitions for SMEs for example based on number of employees, size, sector and other factors. In this study, SMEs are defined as firms having maximum sales turnover of US dollars 3 million and employing 200 or less people (Ayyagari, Beck & Demirgüç-Kunt, 2003; KAM, 2012). SMEs in Kenya permeate the entire economy which according to Kenya National Bureau of Standards (KNBS) comprises the sectors of Agriculture, Manufacturing, Financial Services, Tourism, Building and Construction, Energy, Transport and Communication, Education, Health, and Business environment and Natural Resources. Therefore SME performance is of great concern to both their owners, managers and the government.

Performance is a key issue for SMEs since it is used to gauge achievement of the enterprise with respect to its objectives and goals. Jensen and Meckling (1976) define organizational performance as the extent to which a firm competes, takes its products to the market, appeals to the community, attracts potential employees and makes profits for its stakeholders. Organizational performance has been viewed as a resource related issue. Extant studies have thus advanced arguments within the framework of theories such as open systems, resource dependence and resource based view (Penrose, 1959; Thompson, 1967; Pfeffer & Salancik, 1978). This study took a similar stand and reasoned that performance of SMEs depends on how the enterprises access, acquire and use resources. In the process, factors such as business development services and entrepreneurial orientation of the enterprise may influence its levels of performance. These factors are examined in this study as conceptualized in Figure 1.

### **2.2 The Concept of Business Development Services**

The role of small business development as a way of boosting employment and income for the majority poor and low income earners has been recognized by governments, development agencies and researchers in many countries for several decades now. This led to the introduction of micro-finance (MF) services, which demonstrated that services tailor-made for small businesses can be economically viable and be used in poverty reduction. However, it was realized that still, "small businesses are constrained by several non-financial factors such as lack of education, inadequate technical skills, poor access to markets, lack of information and unreliable infrastructure" (Miehlbradt & McVay, 2002:1). These constraints may be overcome through BDS resulting in improved productivity, market access and profitability.

BDS has been perceived in many different forms in literature. The dominant ones have been non-financial services such as market access, infrastructure, policy and advocacy, input supply, training and technical assistance, technology and product development, and alternative financing mechanisms (International Labour Organization, 2003). Committee of Donor Agencies for Small Enterprise Development in 2004 has defined BDS as services that improve market accessibility, competitiveness and overall performance of an enterprise. Miehlbradt and McVay (2003) note that BDS consists of a matrix of activities that entrepreneurs use in order to operate and expand their business operations with the aim of economic growth, employment creation and poverty reduction. United Nations Committee on Trade and Development (UNCTAD) observe that BDS comprises "all types of SME support services including training, consulting, technical and managerial support, marketing, physical infrastructure and policy and advocacy" (UNCTAD, 2005). Scholars such as Brijlal (2008) contend that BDS is a means through which SMEs can overcome market failure by providing information needed by businesses, availing consultancy services, enhancing skills and business training, improving quality through technology transfer and development, and providing access to subsidized infrastructure.

Studies focusing on the relationship between BDS and SME performance, and arguing that the concept manifests in organizations, are many. A review of literature reveals some distinct schools of thought. Whereas some researchers (McCormick, 1999; Van der Ree, 2003) hold the view that BDS may help organizations achieve better performance, others suggest that BDS are supply driven and therefore may not have a positive impact on organizations (Nelson, 1997). Views on the relationship between BDS and performance have thus been inconclusive. In this study, BDS was determined as a composite of market access, infrastructure, policy and advocacy, input supply, technology and product development, and alternative financing mechanisms. This led to the hypothesis one thus:

*H1: BDS has a direct and positive effect on small and medium enterprises*

### **2.3 The Concept of Entrepreneurial Orientation**

The term "orientation" has commonly been used in organizational research to connote an individual or organization's inclination or state towards a certain philosophy or behaviour. Philosophical orientations are attitudes that add value to an entity while behavioural orientations have been described as their action-based stances. Based on this perception, numerous constructs have been articulated as orientation. For example market orientation, motivation orientation, role orientation, external orientation, strategic orientation (Parker, 2007; Pett & Wolff, 2010) and entrepreneurial orientation (Miller, 1983) which this study examined. On the other hand, the term "entrepreneurial" refers to the behaviour exhibited by entities when they pursue opportunities and create wealth without regard to the nature, type, or availability of their resources. According to Miller (1983: 771), an entrepreneurial firm is one that "engages in product market innovation, undertakes somewhat risky ventures, and is first to come up with proactive innovations beating competitors to the punch." Consequently, other scholars (Covin & Slevin, 1989; Fatoki, 2012) have argued that entrepreneurially oriented firms generally exhibit innovative, risk-taking and proactive characteristics. The concept of EO emerged from strategic management literature on a strategic-choice perspective which asserts that launching a new start-up, through an existing firm or via internal corporate venturing can be successfully undertaken by purposeful enactment (Lumpkin & Dess, 1996). Fatoki (2012) points out that, although entrepreneurial orientation has been widely studied, there is still lack of consensus regarding its definition. Literature (Yusof, Sandu & Jani, 2007) posits that the term entrepreneurial orientation is used to refer to "the set of psychological traits, values, attributes and attitudes strongly associated with a motivation to engage in entrepreneurial activities." Lumpkin and Dess (1996) defined the concept as processes that comprise the methods, practices, and decision-making styles that lead to new entry. Moreno and Cassilas (2008:508), on the other hand, defined EO as "the organizational decision making inclination that favours entrepreneurial activities."

Even though definitional differences of the concept exist, entrepreneurial orientation as an area of study has generated a lot of interest especially since early 1980s. After Miller (1983) asserted that entrepreneurially orientated organizations may benefit from it, the need to understand the phenomenon especially within the SME sector, has gained considerable momentum (Lumpkin & Dess, 1996; Wiklund & Shepherd, 2003; Gathenya, Bwisa & Kihoro, 2011; Fatoki, 2012). A major point of contention in these studies has however been how the presence of entrepreneurial orientation may be detected in an organization. Literature demonstrates that the original three dimensional construct pioneered by Miller (1983) consisting of risk-taking, innovativeness and proactiveness, and the five-dimensional version with competitive aggressiveness and autonomy added by Lumpkin and Dess (1996) have been the most popular measures.

Studies focusing on entrepreneurial orientation using these two measures have however generated mixed results regarding its role in organizations (Wilkund & Shepherd, 2003; Fatoki, 2012). Gathenya, Bwisa and Kihoro's (2011) study observed that although entrepreneurial orientation has an effect on SMEs in Kenya, other variables should be considered in future studies. In a more recent study, Fatoki (2012) examined the role of entrepreneurial orientation on SMEs in South Africa and found that although there was a positive effect on SMEs, financial debt mediated this effect. These results suggest that entrepreneurial orientation can have both direct and indirect effect in organizations. In this study, entrepreneurial orientation was measured using the Lumpkin and Dess (1996) model with the five dimensions of risk taking, innovation, pro-activeness, competitive aggressiveness and autonomy leading to the second hypothesis thus:

*H2: Entrepreneurial orientation of SMEs is directly and positively influenced by BDS*

### **2.4 The Mediating role of Entrepreneurial Orientation**

Studies focusing on the relationship between business development services and performance have argued that BDS manifests in organizations in different forms. However, the extent to which BDS affects these

organizations has been said to vary. Reasons for this variation have been advanced in terms of conceptualization, methodology and the context of the studies. Extant studies (McCormick, 1999; Gathenya, Bwisa & Kihoro, 2012) have reported that BDS is affected by environmental factors around a business. They observe that organizations operating in different countries, and even in the same country but different regions, have been seen to exhibit different benefits accruing from BDS.

As for methodology, studies have used different combinations of BDS measures leading to differences in results. For example (SEEP, 2000) presents a seven dimensional construct for BDS while Mehta et al (2007) selected only certain aspects of BDS which they used when examining the effect of BDS on community managed small water enterprises in Kenya. Lastly, studies have conceptualized BDS differently. Whereas some studies (Brijlal, 2008) have investigated BDS as a single independent variable, others (Caniels, Romijn & De-Wilt, 2003) considered other factors. In this study, it was argued that entrepreneurial orientation of a firm may have an important role to play in the way BDS affects its performance which led to the third hypothesis:

*H3: EO has a positive mediating effect on the influence of BDS on performance of SMEs*

**Figure 1- Conceptual Model**

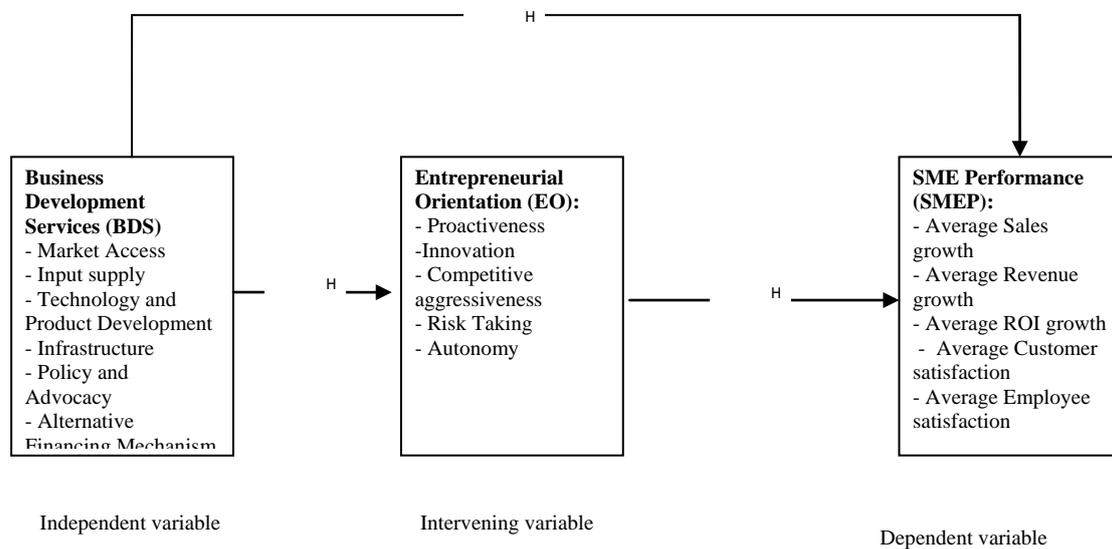


Figure 1 shows the linkages among variables and the hypotheses that guided the study

### 3. Methodology

The overall objective of this study was to determine the influence of entrepreneurial orientation in the link between BDS and performance of SMEs. Specifically, the study aimed at establishing the individual effect of BDS on firm performance and the intervening effect of EO in this link. The study focused on a population of 800 SMMEs registered with Kenya Association of Manufacturers (KAM) as at end of the year 2012 and adopted a descriptive approach within the framework of cross sectional survey design. Cochran's (1977) technique was used to calculate a sample of 150 enterprises followed by stratification by sectors and simple random sampling techniques to arrive at the final list. Structured questionnaires administered through drop and pick methods were used to collect data through primary methods which targeted SME practitioners and senior managers in each organization.

#### 3.1 Measurement of the Study Variables

There were a total of three variables in this study, that is; business development services, entrepreneurial orientation, and performance. Whereas many scales exist for measuring EO, the two which are most common in studies are Miller's (1983) approach, also similar to Covin and Slevin's (1989) scale; and Lumpkin and Dess's (1996) version, also similar to Hughes and Morgan's (2007) scale. In the Miller (1983)

version, three dimensions of EO consisting of innovation, risk-taking and pro-activeness are used in a construct. Nine questions, three for each dimension are asked and their cumulative total or aggregate used to represent the value of EO. Conversely, the Lumpkin and Dess's (1996) scale emphasizes the multi-dimensionality of EO and adds two additional dimensions, that is; autonomy, and competitive aggressiveness. In this case, EO is not modeled as a composite of its dimensions but rather as a construct in which each dimension acts individually and therefore independent of the others. This study adopted a modified version of Lumpkin and Dess's (1996) approach and constructed ten questions, two for each dimension of EO. These questions were rated on a five point Likert type scale ranging from 1 – strongly disagree to 5 – strongly agree. The score for each question was aggregated to obtain an overall index whose large value indicates high EO involvement and small value less involvement in EO.

Business development services was also measured based on a five point Likert type scale ranging from 1- never to 5- always. BDS has been presented as a construct of six elements consisting of market access, infrastructure, policy and advocacy, input supply, technology and product development and alternative financing mechanisms (ILO, 2003). This study adopted this approach and set a total of twelve questions, two on each dimension. A single index for BDS was then generated based on the sum-total of all the twelve questions. Regarding performance, extant studies have separated measurement indicators into financial, and non-financial or operational (Venkatraman & Ramujan, 1986; Wiklund & Shephard, 2003; Frank, Kessler & Fink, 2010). Financial indicators comprise profit growth, return on assets (ROA), revenue growth and earnings per share (EPS) (Bisbe & Oakley, 2004). Non-financial indicators on the other hand consist of new products, market share, product/service quality, operational efficiency and customer and employee measures. This study used a combination of selected financial and non-financial measures comprising growth in profits, sales, ROA, revenue/profit ratio, customer satisfaction and employee satisfaction. Thereafter, based on a five point Likert type scale which ranged from 1- up to 20% to 5- 80% and above, respondents were asked a single question on each measure. A performance index was then created by summing up the responses to all the questions. Thus higher indices reflected better achievement while lower values implied worse performance.

### 3.2 Data Analysis

The data collected were analyzed by linear regressions techniques using Statistical Package for Social Sciences (SPSS) Version 17 while checks for reliability were achieved through Cronbach's alpha tests for BDS, EO and performance. Alpha tests returned values of 0.778, 0.758 and 0.868 respectively which were greater than Nunnally and Bernstein's (1994) recommended minimum of 0.70 and hence deemed acceptable. Additional tests performed on firm performance for homoscedasticity using the Q-Q plot of Z\*Pred and Z\*Presid returned the P-P Plot as presented in Figure 2.

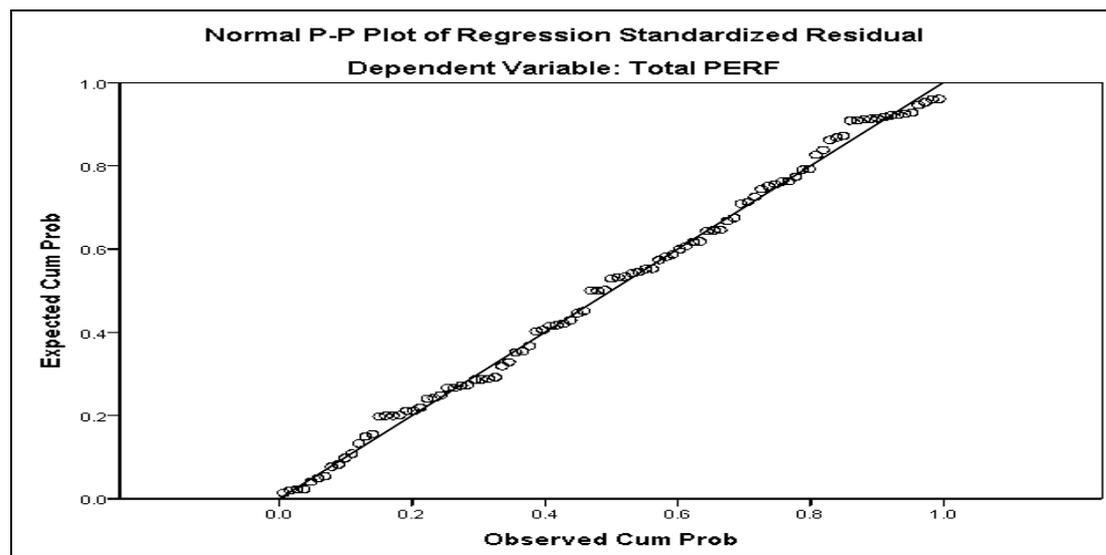


Figure 2 - z\*pred and z\*presid: Tests for homoscedasticity in the regression of performance on entrepreneurial orientation dimensions.

The results in Figure 2 indicate that the plot is a straight line graph with a positive slope. In other words, it is not shaped like a stair-case which demonstrates absence of heteroscedasticity. This means that data on performance did not vary unevenly across the sample used in the study hence a confirmation that conditions for homoscedasticity were satisfied in this study.

**4. Results**

**4.1 Biographical Analysis**

Out of a total of 150 organizations in the sample, 97 participated giving a response rate of 64%. Distribution of the respondents by age in business shows that, majority (57%) had started operations at least 20 years earlier in the 1980s and 90s while 28% started some 10 years before during the millennial years and the rest 15% started in the last 40 years which is 1970s or earlier. Most of the manufacturing firms in the study had thus been in business for at least 20 years. According to analysis by sectors, distribution was proportionate in line with the study samples. Food and beverage which had the largest sample also had the highest number (16%) of respondents. Similarly, plastic and rubber sector had 15% respondents, and lastly leather and footwear had the smallest sample and least number (1%) of respondents. Number of employees was used to verify size of an organization, that is, if it was an SME. Results show that the bulk (99%) had up to 199 staff while a paltry 1% of SMEs had 200 staff or more. This confirms that an overwhelming majority of the respondents were in the SME category as expected.

**4.2 Descriptive Statistics and Tests of all the Hypotheses**

Descriptive statistics for all the variables are presented in Table 1 while the tests for all the hypotheses are given in Tables 2, 3, 4 and 5.

**Table 1: Descriptive Statistics**

Variables	Mean	Standard Deviation
Performance	44.05	6.552
Business Development Services	16.09	5.094
Entrepreneurial Orientation	35.18	5.664

**Table 2: Correlation Results**

		BDS	EO	Performance
BDS	Pearson Correlation	1	0.587***	0.409***
	Sig. (1-tailed)		0.000	0.000
	N	93	93	93
EO	Pearson Correlation	0.587***	1	0.114
	Sig. (1-tailed)	0.000		0.137
	N	93	93	93
Performance	Pearson Correlation	0.409***	0.114	1
	Sig. (1-tailed)	0.137	0.000	
	N	93	93	93

\*\*\*p≤0.01

**Table 3: Extract of Regression Results for BDS and Performance**

Independent Variable	R <sup>2</sup>	Beta	t	Significance
Business Development Services	0.159	0.409***	4.282	0.000

\*\*\*p≤0.01

**Table 4: Extract of Regression Results for BDS and EO**

Independent Variable	R <sup>2</sup>	Beta	t	Significance
Business Development Services	0.337	0.507***	6.794	0.000

\*\*\*p≤0.01

**Table 5: Extract of Regression Results for BDS, EO and Performance**

Predictor Variables	Beta	t	Significance
Business Development Services	0.522***	-1.638	0.000
Entrepreneurial Orientation	-0.192	4.461	0.105

\*\*\* $p \leq 0.01$ ,  $R^2 = 0.174$

As Table 1 shows, the means for BDS, EO and performance are 16.09, 35.18 and 44.05 and standard deviations 5.094, 5.664 and 6.552 respectively. These values confirm that the respondents regarded study variables as important. Tests for hypothesis 1 which states that “there is direct and positive influence of BDS on performance” in Table 2 indicate a near average but statistically significant correlation ( $r=0.409$ ,  $p \leq 0.01$ ). According to the regression results in Table 3, there is a moderate but significant relationship ( $B=0.409$ ,  $R^2=0.159$ ,  $p \leq 0.01$ ) which also demonstrates that 15.9% of variations in performance are due to changes in BDS in this study. This indicates support for hypothesis 1. The results shown in Table 1 further indicate a moderate but statistically significant correlation between BDS and EO ( $r=0.587$ ,  $p \leq 0.01$ ). Furthermore, Table 4 shows statistically significant regression results ( $B=0.507$ ,  $R^2=0.337$ ,  $p \leq 0.01$ ). These results support hypothesis 2 that, BDS has a direct and positive effect on EO. They demonstrate that, BDS explains a significant proportion (33.7%,  $t=6.794$ ) of variance in EO.

In order to test hypothesis 3 which stated that, EO has a positive and significant mediating effect on the relationship between BDS and performance, a four-step procedure as documented in Baron and Kenny (1986) and Kenny (2014) was applied. In the procedure, first and foremost, relationship between the independent and dependent variables is correlated. Then in the second step, independent variable is correlated with the mediator. In step 3, the mediator is correlated with the dependent variable. Lastly in step 4, the independent variable and the mediator are both correlated with the dependent variable simultaneously. According to Baron and Kenny (1986), if all the four conditions are true, then a mediation effect exists. The degree of mediation however varies from partial to full. In the case of partial mediation, both indirect (mediator) and direct (independent variable) effect are present. Conversely, “full mediation” is detected when the influence of independent variable is completely eliminated when the mediator is introduced.

The results for the tests for mediation effect of EO are presented in Tables 3, 4 and 5. Table 3 shows that BDS is positively correlated with performance ( $B=0.409$ ) and the correlation is statistically significant ( $p \leq 0.01$ ,  $t=4.282$ ). This confirms step 1. Regarding step 2, the results in Table 4 indicate that BDS has a significant influence on EO ( $B=0.507$ ,  $p \leq 0.01$ ) with a high variance ( $t=6.794$ ). This confirms that EO is a creation of BDS which satisfies condition for the next test. In the third test, when the effect of BDS and EO on performance are tested simultaneously the results, as shown in Table 5, indicate a weaker model ( $R^2=0.174$ ) with a much higher and significant regression coefficient for BDS ( $B=0.522$ ,  $p \leq 0.01$ ) but a not statistically significant value for EO ( $B=-0.192$ ). As explained earlier, for mediation to occur, the mediator should have a significant influence (partial or full) on the dependent variable in the presence of the independent variable. Since in this test the correlation between EO and performance in the presence of BDS is not statistically significant, EO does not have any mediating influence (partial or full) on the effect of BDS on performance. This leads to the rejection of hypothesis 3 and conclusion that the effect of the independent variable on the dependent variable through the mediator is not statistically significant. In other words, there is no mediation detected. Therefore, the study can conclude that entrepreneurial orientation does not mediate the relationship between business development services and performance of SMEs.

## 5. Discussion and Conclusion

The results confirm support for the effect of BDS on performance of the studied organizations and answers objective one. This finding agrees with those of some past scholars (McCormick, 1999; Brijlal, 2008; Van der Ree, 2003) who reasoned that organizations that have access to BDS perform better than their counterparts which do not. The results further support views and efforts by development agencies, as contained in various conference reports and other literature (Miehlbradt & McVay, 2002:2003; ILO, 2003; World Bank, 2004) that BDS has a positive impact on SMEs. Furthermore, the findings agree with Beck, Demirguc-Kunt and Levine (2005) that BDS could be a crucial ingredient in SMEs efforts towards increasing jobs, alleviating poverty and spurring economic growth.

The findings also show strong support for business development services and entrepreneurial orientation in the small and medium enterprises in this study and satisfy objective two. Non-existence of entrepreneurial orientation is one of the factors that lead to failures of several start-ups and small and medium firms in Kenya. According to this study, entrepreneurial orientation exhibits a positive association with business development services and thus BDS can be used to increase effectiveness of entrepreneurial orientation in small and medium enterprises. Since there are no known studies correlating the relationship between BDS and EO, this is a pioneering finding and is crucial for small and medium enterprises operating in Kenya. However, despite these positive results regarding BDS, this study finds no support for the role of EO on the effect of BDS on performance. This is contrary to expectation based on objective three but is a crucial finding for SME sector. It shows that much as BDS has an effect on firm performance as well as on entrepreneurial orientation, the effect of BDS on performance is not influenced by the level of a firm's entrepreneurial orientation.

This study has achieved its three objectives that is, to establish whether business development services have an effect on performance of SMEs; to investigate the relationship between business development services and entrepreneurial orientation; and to determine the role of entrepreneurial orientation in the link between business development services and SME performance. The study contributes to theory by empirically demonstrating that BDS has an impact on EO of SMEs in Kenya. This way, scholars may use these empirical findings as a basis for future research. Similarly, the study has implications for policy and practice. The findings that BDS affects both EO and performance present an opportunity for SME management and practitioners, policy makers and other stakeholders to make informed decisions and choices regarding these important aspects of business management.

### **5.1 Limitations of the Study**

Business Development services are presented in past studies as a multi-dimensional construct. This study however aggregated the six dimensions to form a single index for measuring BDS. In this approach, the effect of individual dimensions is ignored. This may have implications on the value of the index especially if some of the dimensions happen to have either negative, zero or lower values. This could have adverse effect for the impact of the dimensions having higher values. Likewise, the study focused only on manufacturing SMEs in Kenya which leaves out several firms such as those in the service and professional sectors. These limitations restrict generalization of this study's findings to the firms studied and within the constraints of methods and concepts used.

### **5.2 Suggested Areas for Further Studies**

Future research may investigate the effect of other factors on the relationship between BDS, EO and performance. Given that the results show only partial effect of BDS on performance and EO respectively, it is likely that factors such as organizational factor and management style as well as environmental dynamism and complexity may play some roles. Other studies may also examine entrepreneurial behavior, a very important phenomenon in small and medium enterprises, and how it affects their perception towards BDS and resource acquisition hence performance. In addition different methodological approaches such as path analyses, canonical analyses and others may be used in future as well as adoption of more direct and factual rather than perceptual measurement methods may yield different results. Finally, since the context was restricted to small and medium manufacturing enterprises in Nairobi, other studies may broaden this to other parts of the country and beyond in addition to looking at other sectors.

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