IMPACT OF ENTREPRENEURIAL ORIENTATION ON SMALL, MEDIUM ENTERPRISES PERFORMANCE IN LESOTHO.

By

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DEDICATION

This dissertation is dedicated to my beautiful kids Monono and Khiba Phoofolo, my future entrepreneurs.

DECLARATION

I, Mamonono Phoofolo, declare that this research report is my own work except indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Management in Entrepreneurship and New Venture Creation in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any other degree or examination in this or any other university.

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ABSTRACT

Global business environment recently have a complexity in conducting business transactions. Entrepreneurial Orientation (EO) can be considered a significant factor for ensuring the success of a business, however firms are forced to be involved in seeking out new opportunities. Businesses need to identify opportunities in order to establish capabilities and potentials which will enable them to be innovative, proactive and have propensity to take risks so that they can enhance performance or retain competitive advantage. Apart from that, external business environment within their operation should be considered as an ongoing process to SMEs in order to respond to environmental challenges rapidly and competently. This study explored the impact of Entrepreneurial Orientation which is presented by three dimensions namely; innovativeness, proactiveness, and risk taking and performance.

Cross sectional survey was employed on 118 SMEs through convenience sampling to establish the relationship between EO and performance taking into account environmental contingencies. Data was collected by a valid and reliable questionnaire and analysed.

The study found that, in Lesotho context two factors; proactiveness and innovativeness of the SMEs have influence on EO-performance relationship, while risk taking did not have a major effect in this relationship. The other finding indicated that external environment influences the relationship between EO and a firm's performance.

The findings of this study is expected to be beneficial to entrepreneurs, SMEs owners, future researches and policy makers in the Government by assisting to identify the gaps to enhance and encourage EO.

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CHAPTER 1: INTRODUCTION

1.1 PURPOSE OF THE STUDY

Recently, global business environment have a complexity in conducting business transactions. Entrepreneurial Orientation can be considered as an important factor to ensure the success of a business, nonetheless firms are forced to be involved in seeking out new opportunities. The purpose of this study is to extend empirical research literature and knowledge in the area of Entrepreneurial Orientation by presuming the relationship between Entrepreneurial Orientation construct and SMEs performance. This will be done by ascertaining the level of entrepreneurial orientation in small, medium enterprise (SMEs) of Lesotho and linking its factors to the firm's performance taking into account environmental contingencies. Lechner & Gudmundsson (2014) explained Entrepreneurial Orientation as a firm level phenomenon that refers to the processes, structures, and decision making activities which is characterised by innovativeness, proactiveness, risk-taking, competitive aggressiveness and autonomy.

1.2 CONTEXT OF THE STUDY

Lesotho is the small country located in southern Africa and landlocked by the Republic of South Africa. It is a small, mountainous country that covers an area of 30,355 square kilometres (Zijlma, 2017). Lesotho is divided into ten administrative districts and has a population of about two million, one hundred and seventy four, and six hundred and forty five (World Population Prospects, 2017). Most of the people live in rural areas (Central Intelligence Agency, 2017). Sesotho and English are the official languages spoken though there are also Xhosa and Zulu speakers (Zijlma, 2017). Ministry of Trade and Industry, Cooperatives and Marketing refer small, medium enterprises (SMES) as micro, small, medium enterprises (MSMEs) in Lesotho. However for the purpose of this study, the researcher adopts SME terminology not MSMEs. According to Ministry of Trade and Industry, Cooperatives and Marketing (2011), there is a growing recognition of the value of micro, small and medium enterprises to overall economic development and creation of employment. The study conducted by UNDP indicated that, the development of SMEs is considered as a great achievement for broader development because it contributes to alleviation of poverty, improving the situation of women and increasing indigenous ownership of investment in the economy. In addition to that, it creates employment particularly amongst youth.

At present, the SMEs in Lesotho are largely informal micro-enterprise sub sector accounting for ninety percent of existing industries, and over seventy percent of the businesses are of “retail trade and vending activities; and less than 10% of the country MSMEs are involved in manufacturing” (Ministry of Trade and Industry, Cooperatives and Marketing, 2011).

The aim of this study is to ascertain the level of Entrepreneurial orientation in SMEs of Lesotho and assess its factors with financial performance of SMEs. The Fin Scope MSME Lesotho Report stated that the majority of the SMEs have established from a survivalist perspective (UNDP, 2015) .The study serve as a spring board for this research.

1.3 PROBLEM STATEMENT

According to the United Nations Development Programme (UNDP) report (2015), SMEs have a significant contribution to job creation, development and economic growth in Lesotho. Additionally the Lesotho Government has encouraged rapid and sustained private sector development by trying to implement strategies like separating small businesses department from Ministry of Trade and Industry, Cooperatives and Marketing to be a separate entity for mobilising and enabling SMEs growth and development. The competitive global business environment effectuates most businesses to experience increasingly difficult challenges. The first challenge is the rate of change in new products, new technology and change in customer preferences which has increased dramatically. Moreover, conservative firms are becoming ill defined because many firms are emerging particularly technology firms.

Businesses are “required to recognize opportunities to establish potentials and competences which will enable them to be innovative, proactive and willing to take risks in order to enhance performance or retain competitive advantage”(Mohutsiwa, 2012). Moreover, analysing external business environment within their operation should be an ongoing process to SMEs so that they could be able to respond to environmental changes quickly and competently (Mohutsiwa, 2012). Researchers have indicate that EO has a significant relationship with business performance

(Hussain *et al.*, 2015). Thus this research serves to investigate the interrelationship between Entrepreneurial Orientation and small business performance in Lesotho.

1.3.1 Main Problem

To comprehend the level of EO and firm performance and also look at the influence of external environmental factors on Lesotho SMEs performance.

1.4 SIGNIFICANCE OF THE STUDY

The study will provide awareness and explicitness of Entrepreneurial Orientation and its benefits in SMEs of Lesotho in improving performance, creating jobs and contributing to economic growth. It will also contribute in enhancing academic literature in developing countries like Lesotho, particularly because there is shortage of entrepreneurial academic literature in Lesotho. Moreover, it will be beneficial to entrepreneurs and future researchers and also assist in improving the policies towards encouraging and for entrepreneurial development in SMEs in Lesotho.

The study endeavour to provide clarity on the relationship between EO and performance.

This study is motivated to select SMEs because they tremendously contribute to the development of a country’s economy in reducing poverty. They are also crucial for competitive and efficient market and critical for poverty alleviation (Ayandibu & Houghton,2017).Since the world is continually moving and changing, SMEs are companies that quickly adjust to each environmental fluctuation, hence they have a big advantage in the global context (Ayandibu & Houghton,2017).

1.5 DELIMITATIONS OF THE STUDY

This study is delimited to Entrepreneurial Orientation(EO) and the performance of SMEs in the district of Maseru in Lesotho, as opposed to SMEs across all over the country. Entrepreneurs in other districts will not be included because Maseru is a dominant entrepreneurial hub as it is the main border link between South Africa and Lesotho which contribute to the dominance of the city. Furthermore, EO is “delimited to innovativeness, proactiveness and risk-taking and it excludes competitive aggressiveness and autonomy”(Semrau, Ambos & Kraus ,2016). Moreover, evaluation of the external environment in this study concentrates mainly on issues which are global specifically for small business instead of wider business performance issues that affect large business.

1.6 DEFINITIONAL ISSUES

The following terms are germane to this research work and further explanations are as follows:

Entrepreneurial Orientation: According to Semrau, Ambos & Kraus (2016)

> EO is a firm- level attribute that exists to the extent that innovativeness, risk-taking and proactiveness are features of a firm's strategic posture. Jointly, the three sub- dimensions reflect the extent to which a firm is entrepreneurial (as opposed to conservative) in its decision-making styles and methods, products, services, and business practices (p.1929).

SMEs- Small and Medium Enterprises (SMEs) are defined as small sized entities, in terms of their size of investment. They are contributing significantly to output, employment export and many more in the economy. UNDP (2015) indicated that:

> Small and medium enterprises (SMEs) includes individual entrepreneurs (without any employees), micro businesses (with 1 to 2 employees), as well as small businesses (3 to 9) and medium size businesses (10 to 49 employees). Informal businesses refer to enterprises that are not registered and/or licensed with any government institution within Lesotho. SMEs also include agricultural activities if 50% or more of the produced goods are sold (p.8).

In the context of Lesotho economy, SMEs are defined and categorised as shown in Table 1.1 below:

Table 1.1: Definition and Categorisation of MSMEs in Lesotho

	Micro	Small	Medium
No. of employees including the owner	Less than five employees	6-20	21-50
Annual turnover	Less than M200 000	Less than M 1,000 000	Less than M5,000 000

Source: Micro, Small, Medium Enterprises policy for Lesotho (2011).

Firm/Business's Performance–Business performance is defined "as a measure of how well or poorly the firm performs"(Rauch, Wiklund, Lumpkin & Frese, 2009). In this study it is conceptualized as financial measures including assessment factors which include "return on investment, return on equity, return on capital, and non-financial measures such as employee retention, market share, etc. are used comprehensively and collaboratively to measure a company's performance" (Rauch, Wiklund, Lumpkin & Frese, 2009).

1.7 ASSUMPTIONS

I. This study assumes that the respondents will understand and be able to answer the questionnaires so that relevant data will be collected for the study.

II. It is also assumed that the respondents will have had an exposure in entrepreneurship either by training, practice or awareness.

CHAPTER 2: LITERATURE REVIEW

2.1 INTRODUCTION

In this chapter an elucidation of the research problem was carried out through the consideration of the extant empirical and theoretical literature.The literature review will build an empirical foundation for the study and unveil the origin and trajectory of the hypothesised model.Thus, it will aid this study to “find the available knowledge in the identified research area, pre-applied research methodologies and formulate others on the basis of what has already be done in order to address imposed questions for this study” (Kumar,1996).

This chapter reviews the literature on theoretical background, constructs and concepts of entrepreneurship, entrepreneurial orientation and SMEs performance. In order for EO theory to be “effective and efficient, it should be aligned with entrepreneurship and the construct of EO is influenced by behaviours that are reflected in any firm that can succeed in showing entrepreneurship” (Jeffery, Covin & Lumpkin, 2011). Moreover, sub dimensions of entrepreneurial orientation are discussed. The literature review highlights the relationship between EO and firm performance and relates these to firm growth (Hussain *et al*., 2015). The chapter continues with a review of the external environment from organizational theoretical perspective.

2.2 CONCEPT OF SMES AND ENTREPRENEURSHIP

Since we live in a world which is continually moving and changing, small, medium enterprises (SMEs) are entities that quickly adjust to each environmental fluctuation, hence they have a big advantage in the global context.

2.2.1 Definition of SMEs

SMEs are “non-subsidiary, independent firms which employ less than a given number of employees and this number varies across countries” (MTICM, 2011). SMEs are a distinctive backbone of the economy that needs owing attentiveness (Subhan, Mehmood & Sattar, 2013). In the views of Arpa *et al*., (2012), “in the internationalized markets, SMEs have considered to be active in the internationalized markets in order to acquire growth and long-term survival and should be highly active due to rapid change to the global environments". Additionally, established SMEs are highly competitive despite at the early state of internationalisation as they embrace the tenets of firm competence such as EO and they can resite the pressure to cave in from large firms. EO is pivotal to the resilience, success and sustainability of SMEs(Robu, 2013). Moreover, SMEs "which proactively seek for opportunities in international market, are probably to be managed by proactive and risk-taking own-manager with international mind-set" (Robu, 2013).

2.2.2 Defintion of Entrepreneurship.

Naude (2013) defines entrepreneurship as the resource, process and state of being through and in which individuals use positive opportunities in the market by producing and developing new business firms. The definition includes initiative taking, the organizing or reorganizing of social economic mechanisms to make situations and resources be practical and undertaking of risk of failure (Kuratko, 2016). As are source entrepreneurship is very significant as it is harmonized in economics; as process it corresponds to the attention given in management studies on the start-up, growth and exit of firms and for state of being, it acknowledges that entrepreneurship is not limited to be influential, but is usually valued in itself (Naude,2013).

Furthermore, Naude (2013) indicates that, scholars perceived entrepreneurship initially as being limited to innovation and business creation, the perception is extended towards one where entrepreneurship is seen more appropriately as a social phenomenon which reflects the wider institutional characteristics of a society. Entrepreneurship is concerned with the fact that business should be successful as measured by profits and also with subjective and non-economic wellbeing of businesses. It is a motivation for structural change and institutional evolution.

Moreover, entrepreneurship is presumed to be beneficial for growing and developing the economy. In addition entrepreneurship has been phenomenally rejuvenated in the past decades in countries like China which achieved essential poverty alleviation. Apart from that, donors and international development agencies have adopted entrepreneurship theory in order to enhance the effectiveness and sustainability of aid (Naude 2013).

Kuratko (2016) indicated that entrepreneurship is unique as it consists in doing things that are not generally done in the ordinary course of business routine, it is basically a phenomenon that comes under the wider aspect of leadership. Entrepreneurship involves initiative taking, the organizing or reorganising of social economic mechanisms to make situations and resources be practical ad undertaking of risk of failure. Furthermore, entrepreneurship is the sign of business perseverance and achievement. Businesses are currently thriving due to the fact that entrepreneurs are the pioneers of their success. Entrepreneurs sense opportunity, they drive to innovate, and their capability for accomplishment have become the standard, by which free enterprise is measured. The standard has seized throughout the whole year (Kuratko, 2016). Moreover, entrepreneurs strive to exploit on business opportunities which may require various operations, assist enterprises to make constructive decisions and recommends new markets for enterprises (Chen & Hsu, 2013)

Audretsh, Kuratko & Link (2015) explained entrepreneurship as the starting of new businesses, it is the capability and willing to develop, organise and manage a business venture together with its risks with the purpose of making a profit. Furthermore, Shane & Venkataraman (2000, p.217) in Audretsh *et al*., (2015) described entrepreneurship as the invention and exploitation of lucrative opportunities. Conversely, Parker (2009) consider self-employed people as entrepreneurs. Likewise, Mckelvie & Wiklund (2010) regard entrepreneurship as the innovative performance of firms. Besides , “entrepreneurship is basically about experimentation because knowledge to be successful cannot be known in advance” (Kerr, Nanda & Kropf ,2014).

Entrepreneurship focuses on the original detection of a new venture, which includes idea examination, developing opportunities and locating the resources. For entrepreneurs, creation is the imperative ingredient when venturing, entrepreneurs tend to be visionaries who establish unique businesses by injecting a sense of purpose and identity into their businesses. They do more than cost-cutting or rejuvenating exercises in the businesses, they are adaptable and are capable for preserving resources and exploiting opportunities (Venter & Urban, 2015, p.14).

Kuratko (2016) posits that entrepreneurship is unique as it consists in doing things that are not generally done in the ordinary course of business routine, it is basically a phenomenon that comes under the wider aspect of leadership. Entrepreneurship is the sign of business perseverance and achievement. Businesses are currently thriving due to the fact that entrepreneurs are the pioneers of their success. Entrepreneurs sense opportunity, they drive to innovate, and their capability for accomplishment have become the standard by which free enterprise is measured. The standard has seized throughout the whole world.

Entrepreneurship has different domains namely:

1. **Corporate Entrepreneurship-** the pursuing of "new opportunities, creation of new businesses, innovativeness relating to products, services and processes, strategic self-renewal, constructive risk-taking and proactiveness in corporations"(Venter & Urban, 2015, p.14). Researchers have conceptualised corporate entrepreneurship as the presence of innovation including the rejuvenation or redefining of companies, markets or industries so that they can overcome competitors (Venter & Urban, 2015).

2. **Technopreneneurship-** a business leadership that involves high- potential, technology-intensive commercial opportunities, gathering resources such as talent and capital, and manging rapid growth and significant risk principled decision making skills. (Venter & Urban, 2015).

3. **Social Entrepreneurship-** application of the principles of entrepreneurship to redress social problems. Social Entrepreneurship also identifies opportunities, develop innovative responses, and leverage resources in order to achieve expected objectives. (Venter & Urban, 2015)

Therefore, entrepreneurship is the fundamental source of economic growth in most countries. The impact of entrepreneurial activity is encountered in most sectors and at all levels of society particularly because it connects with innovation, competitiveness, productivity, wealth generation, job creation and creating new ventures (Kuratko, Morris & Schindehutte, 2015).

2.3 SIGNIFICANCE OF SMES AND ENTREPRENEURSHIP TO THE ECONOMY

The SME sector creates job, fosters broad-based development, and income distribution. Thereby promoting "resources accumulation and poverty alleviation"(Robu, 2013).SMEs drives the economy and are foundation for indutralisation and a productive economy . In the 21st century, SMEs are faced with the challenge of global competitiveness. Meaning that customers are provided with stable and reliable products and services of a best quality, while the market environment is identified by global competition (Robu, 2013).

SMEs have a great proportion of the entrepreneurial structure of the EU, they contribute a large measure to the economic growth, creation of jobs and innovation which is critical for the competitiveness of European companies. In the European Union about 20,70 millions of SMEs secure around 2/3 of the jobs in the private sector and represent 99.8 % of the total enterprises. In Romania, SMEs face the challenge of reporting, the financial reporting system for SMEs is not simplified, and all entities apply the same rule specified in accounting regulation. This rule is complicated for SMEs since it applies both for SMEs and large companies. Despite the challenges of SMEs in Romania, SMEs supply and consume good services as they have a significant role in positioning themselves in a marketplace by initiating purchasing power and value chain capacity. They encourage both industrial and consumer goods. SMEs are beneficial as they create demand to the suppliers of industrial goods and have the capacity of supplying new products which emerge from upgraded equipment (Ciubotariu, 2013).

According to Subhan *et al.,* (2013), the study conducted in Pakistan SMEs revealed that SMEs contribute significantly in the transition of agriculture, led economies to industrial ones furnishing plain opportunities for organising activities which can initiate sustainable sources of revenue and magnify the development process. SMEs reinforce the expansion of systematic productive capability. They assist in absorbing productive resources all levels of the economy and generate flexible economic systems in which small and large are interlinked. And such linkage is very important because it attracts foreign investment.

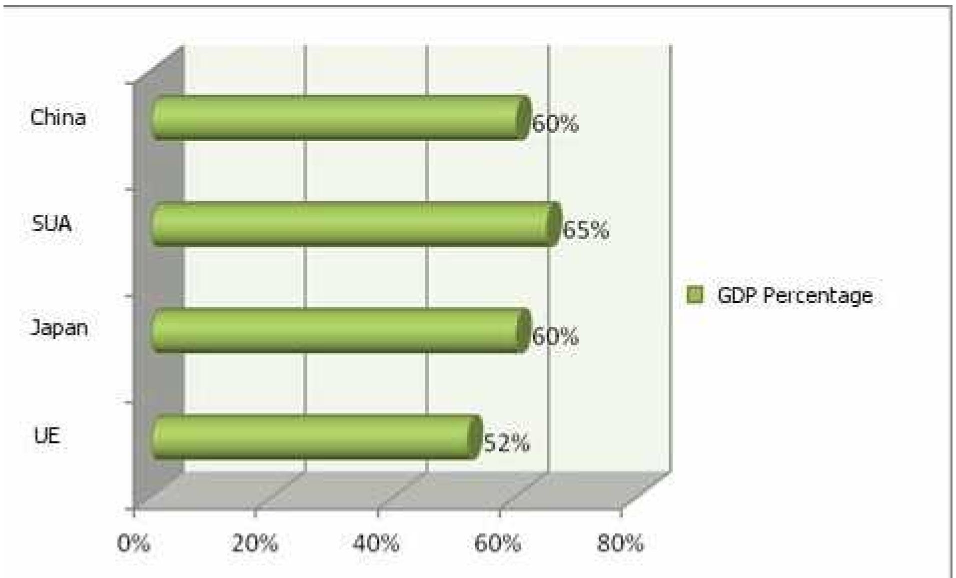
In the countries like China, SMEs are the major force behind the growing economy, since they have a direct impact on rational GDP, scale of assets, diversification of products and the global contribution being the creation of employment. They contribute 60% of GDP (Robu,2013).This is also similar in countries such as Japan and Korea in terms of creating employment, poverty alleviation and increasing the welfare of the society as they contribute 60% of GDP (Robu,2013). In Pakistan, SMEs support an entrepreneurial spirit and create flexibility in the economy. They also develop the fastest growing export subsectors. Additionally, they are more efficient in resource allocation in comparison to large scale industry .It is evident that small firms are discriminated against comparatively to large firms on the basis of systematic management, managerial skills, devotion and dedication to their job description. Large scale firms have the capacity of resolving their financial and managerial obstacles due to having good experience and financial positions but SMEs, due to their small size and their peculiarities are limited in their capacity to compete and achieve successful business outcomes (Subhan *et al* ., 2013).

Furthermore, OECED (2013) indicated that SMEs account for 60 to 70% in most OECED countries with an exceptionally large share in Italy and Japan, and a relatively small share in the United States. SMEs also account for an unbalanced large share of new jobs particularly in countries like United States and Netherlands which have portrayed a vigorous employment record. Age is important rather than size in job creation; small firms generate more than their share of employment. Moreover small firms do not usually invest much in training and they rely relatively more on external recruitment for raising talent.

A few so-called high–growth SMEs make salient contribution to job creation and productivity growth in the OECED area. They need management capabilities at earlier stages for survival. As the firm matures, human resource and innovation strategies become very crucial. After the firm has been established, it needs to innovate for growth. SMEs which grow fast are those that convert strategy into action in the form of Research & Development, innovation and training, accentuate on hiring competent employees and motivating employees, and enhancing their capabilities in various areas. Nevertheless, high–growth SMEs have barriers to the developments; which are market failures in capital markets, government regulations, indirect labour costs, access to foreign markets, and complications in recruiting qualified staff and competent workers (OECED, 2013).

Yeboah, (2015) indicated that bulk of SMEs in Ghana, are within the services sector mainly hotels, restaurants, transport and storage, business and real estate. Eventhough the Government has directed substantial policy and impetus schemes to SMEs of Ghana, there is still alarming failure rate of SMEs .Educational qualification of the entrepreneur and the size of the enterprise has very important influence on SME growth. Study conducted at Cape Coast Metropolis Ghana concluded that owners/managers of SMEs should be educated even if they do not have a formal education, they should attend seminars and workshops frequently in order to obtain essential knowledge and skills to improve their business growth. Entrepreneurs should not only be directed by financial motives. Also entrepreneurs should incorporate competent employees to facilitate the growth of their enterprises.

Figure 2.1 Contribution of SMEs to GDP of EU, Japan, SUA and China



According to Cant & Wiid (2013), SMEs in South Africa give 91% of the formal business entities contributing 51-57% to the GDP and 60% of employment in South Africa. However, most of the small businesses within South Africa do not sustain to two years trading due to high failure rate of 63%. Like any other business entities they are faced with different macro environmental variable such as marketing, management, and human resources and financial relate matters. Furthermore, SMEs in South Africa which fail to implement market Orientation does not reach their full marketing potential thus their potential returns of their business is at risk. Besides that, SMEs operating in the South Africa Economy face the challenge of dynamic and highly unstable market conditions. There should be adoption and implementation of market oriented strategies in order to eradicate these challenging economic conditions, aggressive competitive environment, and unmodernised operational environment (Dubihlela, 2013).

Roxas, Ashill & Chadee (2017) argued that SMEs also contribute to pollution and change, because of unmitigated number and dominant economic activities. Small businesses have the challenge of becoming more environmentally sustainable due to intensifying societal pressure. The question still stands on how do small, resource-poor businesses in less developed countries become environmentally sustainable in their overall strategic stance and also be financially viable. Furthermore, in the developing countries, small businesses do not have sufficient resources and they operate in underdeveloped institutional environments, thus inhibiting them to adopt environmental sustainability initiatives because these may be perceived as risky initiatives incur additional costs. Nevertheless, small businesses still have advantage of being small since they have a great flexibility to be proactive and innovative in relation to the strategic directions of the business in inclusive of the adoption of environmentally sustainable strategic orientation compared to large firms.

The study undertaken in the small manufacturing firms in Philippines revealed that despite their limited resources, small businesses can embark on environmentally sustainable business practices if they have an Entrepreneurial Orientation. This is opposite to the notion that small businesses are predominately unable to pursue sustainable practices relative to larger firms (Roxas, Ashill & Chadee, 2017).

Moreover, EO has the possibility of enabling small business to develop their competences to lessen the production costs, pre-empt competitors and participate in the respective industries which are sustainable competitive advantages from the combination of environmental concerns in business. Small business in developing countries face many various pressures and constraints compared to their counterparts in developed countries. Eventhough many developing countries are economically growing rapidly, they have low environmental standards in place due to the underdeveloped institutional environments in these countries (Roxas, Ashill & Chadee, 2017)

In the context of Lesotho, SMEs are identified as pivotal to the poverty eradication , employment creation women empowerment and export market.Above all growing unemployment amongst the youth accelerates development of SMEs sector. The lesostho environment is plagued by some deterring factors-“limited access to finance, lack of both domestic, regional and international markets, low level of entrepreneurial and managerial skills particularly technology, lack of reliable physical infrastructure and premises with water, poor access to electricity and environmental hostility such as tax and licencing regulations"(MTICM, 2011).At present, less than ten per cent of the SMEs belong to the real sector(Manufacturing) as seventy percent of the SMEs fall under retail trade and vending activities (Ministry of Trade and Industry, Cooperatives and Marketing, 2011).

2.4 ENTREPRENEURIAL ORIENTATION (EO) CONSTRUCTS

EO has predominantly been originated as an organizational decision–making propensity supporting entrepreneurial activities (Lumpkin & Dess,1996).According to Covin & Wales (2011) Mintzberg (1973) and Kwandalla (1976)/1977) acknowledge EO as a managerial disposition embedded in decision making. Dess & Lumpkin (2001, p.3) regard EO as experienced at the organizational level where critical decisions are made on behalf of the whole organisation. Miller & Friesen (1982, p.1) postulate that EO express the nature of the innovative strategy of the firm, hence the executives are adamant about it in achieving their goals. Entrepreneurial firms have the courage and are prone to innovating and are able to take calculated risk in their product-market strategies. In Addition to that a firm is entrepreneurial if it involves in product-market innovation, and endeavour risky enterprise and be proactive, overriding the competitors.

Moreover, Rauch *et al.*, (2009) explained that EO can be viewed as the source of strategy-making process and is also perceived as an antecedent of growth (Cassia & Minola,2012) taking into account environment and resources (Wiklund, Patzelt & Sherpherd, 2009) . It represents the policies and practices that yield a basis of entrepreneurial actions. Hence EO may be regarded as the entrepreneurial strategy-making processes whereby critical decision makers utilize to authorize their firm's organizational purpose, sustain its vision, and create competitive advantages (Rauch *et al.*, (2009) also pursue new opportunities (Engelen, Gupta, Strenger & Brettel, 2012).

Furthermore, firms need to take action expeditiously towards rapid change, competitive pressures locally and internationally and fast technologies, firms in recent environment may take a good advantage if they adopt and encourage entrepreneurial orientation. Literature reveal that entrepreneurial organizations possess three main characteristics namely: innovation, risk-taking and proactiveness which could be summed to assess a firm's entrepreneurial orientation (Covin & Slevin, 1989; Miller, 1983; Miller & Friesen, 1982).

Semrau, Ambos & Kraus (2016), indicated that EO is a firm level situation and a critical concept of strategy making. In a situation where business must seek new opportunities, EO is the one of the few qualities that firms can sustainably depend on, because EO implies Entrepreneurship with respect to strategy making and resource orchestration. Hence decision makers from hostile and technologically sophisticated (Arshad *et a*l., 2014) environments should foster EO to create a competitive advantage. Moreover, most different types of firms and national contexts apply the concept of EO because of its validity. Previous literature has proved that the relationship between EO and performance is universally positive. The motive behind this is that, firms that pursue new solutions and take risks due to their orientation toward innovation are more likely to effect and exploit new business opportunities and therefore attain higher performance.

According to Wales, Gupta & Mousa (2013) there are similar concepts in the Entrepreneurship literature such as Corporate Entrepreneurship and small business orientation which can be compared with EO. As opposed to Corporate Entrepreneurship, which deals with intrapreneurial activities like corporate venturing and self-renewal, and small business orientation, which entails the emotional relationship of the owner to the business, EO relates to the strategic posture of the firm entirely. EO provides framework for scrutinizing it, hence, EO allows for distancing the intentions and attitudes of important people in the firm from the firm's overall propensity towards entrepreneurship.

Yoon & Solomon (2017) argued that organizations with high EO regularly, quickly innovate and while taking risks in the strategies. They also proactively forecast demand and position new products/ services offerings, hoping that their entrepreneurial actions would result in good performance (Rauch et al.,2009).It is also indicated that corporate entrepreneurship has relationship with EO because it refers to the capability which is owned by organizations to enhance entrepreneurship and innovation at the organizational level. Moreover, EO can be related to a firm's entrepreneurial capital as it influences organizational members to take risks so that they can contribute to the performance of organization.

Pearce, Fritz and Davis (2010) indicated that an EO is conceptualized as a set of different but interconnected behaviour that have the attributes of innovativeness, proactiveness, competitive, aggressiveness, risk-taking, and autonomy. Nevertheless, this study is focussing critical dminensions of EO namely- risk- taking, pro-activeness, and innovation, and as critical dimensions which characterise EO, because it has been established from previous studies that three dimensions positively affect business performance, besides that most researchers agree that EO is the focal point of proactiveness, innovativeness and risk-taking (Filser & Eggers, 2014) so this study is going to verify that in the context of Lesotho as the growing country.

2.5 DIMENSIONS OF ENTREPRENEURIAL ORIENTATION

2.5.1 Innovativeness

According to Lechner & Gudmundsson (2014), innovativeness is identified by a robust Research and Development (R&D) emphasis, technological leadership, introduction of new products and the level of change in product or service lines. The innovativeness measure is focusing towards production innovation even if process of innovation is certainly involved. Innovativeness can be associated with various marketing strategies such as differentiation, and cost leadership to create products and services that can be uniquely perceived by customers and minimise cost in R&D.

Furthermore, Tsai & Yang (2013) indicated that firm innovativeness can be considered as a firm's culture, which persuade firm's employees to be innovative by developing new ideas also to recognize as well as solving the problems in new ways. Moreover, innovative firms can utilize markets for labour and capital to bring potential innovations to success. Meaning that firm innovativeness encourage innovative behaviour which may result into new products and services or processes.

Hult (2004) explained that industrial manager are able to solve business problems and challenges through innovation because it is the basis for the survival and success of the firm into the future. Management has significant control over innovativeness. Innovativeness pursue and support novelty, creative processes and the evolvement of new ideas through experimentation (Kraus, Rigtering, Hughes & Hosman, 2012). Laukkanen, *et al* 2013; Soininen, *et al*,2013) specified that innovativeness is required in order to fulfil potential customer needs such as departing from current technologies or practices and venture beyond the existing state of the art.

2.5.2 Proactiveness

Proactiveness refers to processes which are focused in seeking for new opportunities which may or may not be related to the current line of operations, looking forward into introduction of new products and brands ahead of competitors (Kraus *et al.*, 2012) with the anticipation of future demand (Rauch *et al* ., 2009) and critically reducing operations which are obsolete and the declining stages of the life cycle. It certainly involve the importance of initiating the entrepreneurial process (Kraus *et al.*, 2012).

2.5.3 Risk taking

It refers to uncertainty which occurs as a result of behaving entrepreneurially. Entrepreneurial behaviour includes investing important proportion of resources to a project prone to failure. Firms should mostly focus on moderated and calculated risk-taking instead of taking extreme and uncontrolled risk, risk-taking is valuable because it aligns the firm towards the immersion of uncertainty as opposed to fear of it (Kraus *et al.*, 2012). Lumpkin & Dess (1996) indicated that firms take risk such as accumulating high levels of debt, committing large amounts of resources, introduction of the whole new products into new markets as well as investing in unexplored technologies in order to gain better performance and favourable returns.

Mohutsiwa (2015) clarified that, a firm face various risks namely: business risk, financial risk and personal risk: Business risk is the risk which the business venture encounters when entering the business world and does not know the probability of success. Financial risk is the risk which business invests by borrowing or committing relevant amount of in order to get favourable returns but with no absolute guarantee. Personal risk is the risk an entrepreneur anticipates when deciding the best strategic course of action to adopt. He further continued that, a business that does not incur risks in this vigorous environment may lose market share and cannot compete with other entrepreneurial firms within the same category. Firms undertake substantial risk by exploring the unknown, move beyond proved right procedures and strategies, predict future demands, and aggressively position new products and services (Semrau, Ambos & Kraus, 2016).

2.5.4 Autonomy

It is when individuals or teams act independently in ensuring that ideas and concepts are being exercised out to the end. Autonomy allows the employees to perform excellently by being independent, self- reliant, and creative (Arshad *et al*., 2014).

2.5.5 Competitive Aggressiveness

It is the magnitude of the firm's to enhance their position to outdo and transcend their competitors in the market. It is distinguished by a strong offensive posture directed at overpowering competitors and can be reactive as when a firm aggressively enters a market which the rival has recognized (Arshad *et al*., 2014).

2.6 BUSINESS PERFORMANCE

Filser & Eggers (2014) described business performance as the achievement of financial and non-financial goals in comparable with competitors based on the perception of the business owners. Therefore, firms which deliberately apply EO are able to adapt easily to changes in complex market environments and create the market environment proactively, thus promoting their growth and performance potential. Precise and pertinent measurement of performance is an essential component in entrepreneurship research.

Improving performance is the major target of entrepreneurial organization (Wiklund& Shepherd, 2003). Entrepreneurship is macroeconomic outcomes. It is equally essential in business performance too (Kusumawardhani, 2013).Despite various performance measurements, which are applied in different entrepreneurship study, however, studies do not provide any justification of selecting measures (Murphy, Trailer, & Hill, 1996). The business performance is a compartment of organizational effectiveness (Venkatraman & Ramanujun 1996). They said that inclusive business performance includes the financial performance and operational performance both. Indeed, the financial performance of organization is very important, conversely, it not only the represents the overall performances (Venkatraman&Ramanujun, 1996).To cover all areas, both the financial, and non-financial performances are essential to measure. According to Murphyet al. (1996), most of the empirical study of EO research employed performance as a dependent variable. They found it on their literature survey of fifty-one published entrepreneurship studies between 1987 and 1993. Based on the study, they further added and introduced the three dimensions of financial performance such as the efficiency, growth, and profit.Venkatraman and Ramanujun's (1996) have applied these dimensions to measures of financial and operational performances On the other hand, Stam an Elfring (2008) contributed technological performance as measurement of organizational performance through speed of service delivery and O'Sullivan and Abela's (2007) contribution of market share as measurement dimension, the performance measurement seemed contextual. The performance measurement dimensions vary because of context. Literature shows that the measurement can be done subjectively and objectively save for many researchers realized that the self-reported data or subjective measurements is easier (Stam&Elfring, 2008). Dess, Lumpkin, and Covin (1997) also supported this method. In the same way, Venkatraman and Ramanujun (1996) concerning method speak that subjective measures of performance are consistent with objective measures. Thus, this study has also used the subjective measurement to measure three performance measurement dimensions of Murphy et al. (1996).

Measuring conclusive firm performance can be complicated because the concept is intricate and multifaceted (Mohutsiwa, 2015). According to Arshad *et al*., (2014), growth and financial performance is the standard performance management, and non-financial measures which include satisfaction and employee turnover therefore, the researcher will adopt both financial and non-financial measures in this study.

2.7 ENTREPRENEURIAL ORIENTATION (EO) AND FIRM PERFORMANCE

The concept of performance is described as the skill to analyse the level of achievement of a business organization either being small or large, hence the performance of SMEs is being evaluated in terms of size, employment, its investment and its potency (Shehu & Mahmood, 2014).Brouthers, Nakos & Dimitratos (2015) indicated that EO is a firm's tendency to use novel behaviours, predict and act on future changes in the external environment, and the desire to endeavour investments with uncertain results. The capabilities of EO enhance the firm to better use its internal resources and to acquire and more effectively exploit resources from outside services. Moreover, studies have indicated firms with high EO are more relevant in innovating new products, diversify their activities and learn to prosper in an uncertain international environment. These explorations are beneficial since they can assist SMEs to create a competitive advantage in a foreign market, thus leading to better performance internationally. Previous studies indicated that EO and entrepreneurship (Filser & Eggers, 2014) could remarkably enhance business performance (Arshard *et al.*, 2014) and growth (Filser & Eggers, 2014).

EO can exert influence on firm performance as it may be used as mechanism to prevail over resource constraints encountered by most smaller sized firms. This will result into managers greatly benefiting from being innovative and proactive also from pursuing risky novel initiatives, hence differentiating their firm from competitors (Price & Stoica, 2015).

For EO to be developed, it requires organizational members to engage in intensive knowledge activities. However, knowledge cannot be transferred easily nor dispersed due to its characteristics of tacitness and immobility. In order to achieve superior performance and fulfil objectives, firms need to respond to aggressive and competitive environment by perpetually transferring EO into feasible strategic activities and give attention on the utilization of knowledge creation process. Knowledge creation process encourage firms to reinforce knowledge embedded internally and transfer knowledge into operational activities to enhance efficiency and create business value (Li, Huang & Tsai, 2009).

Therefore, in order to achieve a better understanding of firm performance, new enterprises should endeavour to connect EO with knowledge creation process. The important knowledge creation processes include socialization, externalization, combination, internalization which provide a fundamental understanding of the vital processes of knowledge creation in the relationship between EO and performance (Li, Huang & Tsai, 2009).

Gupta (2015) conducted quantitative study and sampled 198 Indian SMEs. They were targeted because they were considered to be the most operational business entities, so the data collected will make contribution to the literature. The first contribution is extending EO research beyond its original focus on advanced western economies and China, and extending the applicability and importance of the EO concept in the developing economy context. Secondly the study create additional information on how certain environmental factors linked with rivals and customers such as demand growth and competitive intensity impact the relationship between EO and firm performance. Eventually, the study gives empirical contribution by engaging the reason in the context of SMEs since they have fewer hierarchical levels and shorter chain of command than large firms.

The study revealed that EO has an overall positive effect on firm performance in the developing economy of India. Also Indian SMEs report that performance benefits result to EO. This findings was crucial because strategic management models emerging in developed economies do not usually fit the conditions common in rising economies (Gupta, 2015).

However, Lonial & Cater (2015) indicated that other researchers have considered that an EO may not certainly lead to higher organizational performance as EO processes are both costly and time consuming, Chen & Hsu (2013) postulate this can affect firm performance. Hence managers need to be more cautious when employing an EO. Apart from that, even though EO can be positively effective, it can still result in a misallocation of resources because these few assets can be more effectively utilized in other endeavours (Lonial & Cater (2015).Under this situation, unsatisfactory deployment of resources cause the firm performance to suffer. Scholars suggested that EO acts on performance in various ways of SMEs in comparison with larger counterparts, since their budget for innovation of new products and financial constraints is limited. Basically, SMEs may be reluctant to take risks or to fund uncertain initiatives because they might not recover from financial losses. Under these scenario, EO may be less important a**t** SMEs because they are less able to incur calculated risks as compared to their larger rivals (Lonial & Cater (2015).

Additionally, the study conducted with SMEs in South Korea denoted that high EO has some drawbacks and might also have a negative impact on firm performance. There are two facts which authenticate this argument. First, individuals may feel insecure and uncomfortable about Organizations, when urgency and risk taking are exaggerated. Apart from that, managers with high level of EO, when they search for opportunity growth, they proactively want to learn about potential changes in their environment and foster their risk taking, proactive, and innovative ways of thinking amongst the organizational members .Nonetheless, particular employees may be unskilled in tolerating uncertainty, and this insecurity may cause undeliberate negative impact on firm performance (Yoon & Solomon, 2017).

Secondly, Yoon & Solomon (2017) indicated that firms with high levels of EO may not have sufficient managerial structure and regulation to conduct high- risk entrepreneurial projects in the technologies which are untested, product or services which can result in poor performance. Moreover, employees turn to be hesitant to take bold and proactive actions under high risk and uncertain situations. Employees prefer to know their precise work unless they are required to be autonomous with their jobs, hence their working environment is often structured.

In a nutshell, imprudent EO may hinder firm performance, especially when EO requires employees to take fast risk-taking actions. Eventhough managers with high EO feel comfortable with uncertain situations and even believe in taking advantages of risky situations in order to acquire future opportunities, this entrepreneurial opportunity propensity cannot be spontaneously expected from employees. Employees may not want to take challenging and ambiguous situations, unless they feel secure that their actions cannot be detrimental to firm performance. It is postulated that firm performance will be highest when there are moderate levels of EO (Yoon & Solomon, 2017).

The impact of EO on firm performance can also rely on organizational Orientation that are involved in any given analysis. Lonial & Cater (2015) concluded that eventhough EO portrays a positive impact on organization performance, the significance of this correlation may vary depending on the firm size. Besides that, other orientations should be included for the analysis.

Apart from that, several studies have been conducted in the countries like Malaysian Bumiputera SMEs, Canadian based firms and SMEs of the Hambantota district of Sri Lanka (Shehu *et al.*,2014) focusing on the actuality of positive relationship between EO and firm performance and significant consensus has been developed that (Hussain, Khan & Shah,2015) EO and firm performance have a significant relationship as EO is crucial for the long term survival and growth of the organisation (Hussain *et al.,* 2015). Hence the similar study is also going to be conducted but in the context of Lesotho to investigate whether the same results will be portrayed. Consequently it is hypothesized that:

Hypothesis1

$H_{1a:}$ There is a positive significant relationship between EO of a firm and its performance

2.7.1 Innovativeness and Firm Performance

Innovativeness is described as the involvement of creative and experimental behaviours which result into new products or services and technical leadership. Therefore established practices are transformed and new ideas are coaxed (Filser & Eggers, 2014). Murimbika (2012) indicated that successful innovation may expedite competitive advantage by developed value for organizations in industrial and services sectors and possibly the whole economies. Murimbika (2012) explained that, apparently, innovation play a crucial role in firm's strategy since it contributes to business performance and wealth creation. Filser & Eggers (2014) demonstrated that innovativeness and business performance strongly correlate. Therefore it is hypothesized that:

$\mathbf{H_{1b:}}$ Innovativeness is positively related with SMEs performance

2.7.2 Proactiveness and Firm Performance

Pro-activeness is the capacity to predict future problems, desire and conversion. According to Filser & Eggers (2014), proactiveness is identified by advantages that are taken in order to utilize unforeseen opportunities, and thereafter introducing new products and services ahead of competitors. Murimbika (2012) demonstrated that strategic managers who manage proactively strive for opportunities in order to exploit for growth and enhance performance. Filser & Eggers (2014) illustrated high level of proactiveness facilitates high business performance particularly in munificent and dynamic environments. Thus it is hypothesized that:

$\mathbf{H_{1c:}}$ Proactiveness is positively related with SMEs performance

2.7.3 Risk taking and Firm Performance

Murimbika (2012) explained that risk-taking dimension is a business organisations' proclivity to take chances for business about strategic actions with uncertain outcome. Every business has risk- taking propensity though it varies on perpetuity from low risk taking to high risk taking.

Filser & Eggers (2014) clarified that risk propensity leads to learning effects also improve the entrepreneurs' capacity and eagerness to manage risk situations. Therefore it is hypothesized that:

$H_{1d:}$ Risk-taking is positively related with SMEs performance

2.8 THE INFLUENCE OF THE EXTERNAL ENVIRONMENT

According to Shirokova, Bogaty & Beliaeva (2015), EO may be regarded as a technique by which firms adjust to the external environment. Appropriately external environment conditions, influence the evolution of business strategic orientation, and have an impact on the relationship between EO and a firm performance. Moreover, there is less pressure and incentive for the firm to diversify its planning efforts or innovate and also be proactive in stable environment. Apart from that, firm need to be innovative and develop new ideas, products, processes, and have propensity to risk because of the fast changing technology and shortened product life cycles. Due to increased domestic and global competition escalation, firms need to remain ahead of the competition (Murimbika, 2012).

Moreno and Casallis (2008) indicated that most of the researches argue that environment moderates the relation between EO and firm performance. Three dimensions which are commonly used as control variables are dynamism, hostility and environmental turbulence. There is a controversial issue that the influence of EO on performance becomes more vigorous when the firm acts in dynamic environment. Meaning that in this environment, firms that behave proactively will achieve better performance. Apart from that, it is indicated that entrepreneurial behaviour represents a good alternative for small and medium enterprises when they deal with hostile environments. These arguments can conclude to the following hypotheses:

Hypotheses 2

$H_{2:}$ The external environment will moderate the relationship between EO and performance with the effect that the relationship is more positive when the environment is dynamic than when it is static.

On the contrary, studies indicated that several factors can influence the relationship between EO and business performance, these factors include the role of firm leaders, characteristics of the management team, the competitive initiatives, and heterogeneity of the company, new entry, and strategic processes (Engelen, Gupta, Strenger & Brettel,2015 ;Escriba-Esteve, Sanchez-Peinado, & Sanchez-Peinado,2008 ;Wales, Wiklund & McKlevie,2015 ; Covin,Green & Slevin , 2006).
This is similar to results obtained in a Spanish sports firms study by Pomar *et al* (2016) that considered into the way firm size influence the relationship between EO and business performance at small businesses. The study confirmed the results of Rauch, Wiklund, Lumpkin & Frese (2009) that firm size affects the EO-performance relationship. These results are constant with the logic that in small businesses, the accessibility of leaders is positive, as they are more versatile and can quickly adapt the changing environment. Basically EO- performance relationship functions better in micro enterprise than small business. For large companies research ascertained that size is a difficulty for entrepreneurial initiatives. Thus concluded that such types of organizations can be successful with financial performance without EO (Innovativeness, risk-taking & Pro activeness).

2.9 BUSINESS ENVIRONMENT DIMENSIONS

2.9.1 Dynamism

Dynamism is one of the external environment characteristics; it indicates the degree of uncertainty and rapid change in industry. Dynamic environments are markets whereby product does not have long life cycle, where the level of innovation is high and customer's demands and competitors' actions are uncertain (Kraus *et al*., 2012). Moreover, firms which devote on an EO are expected to sustain and improve business performance under conditions of high market instability because these firms have the capability to act on constant shifts transpiring in the environment by considering and utilizing new opportunities.

2.9.2 Hostility

Furthermore, the other variable of the external environment is hostility which is connected to different threats to a firm's existence. They comprise narrowing of products and service markets, limited access to important labour, material and other resources, state interference, and adverse demographic trends (Shirokova, Bogaty & Beliaeva, 2015). Shirokova *et al.*, (2015) stipulated that, entrepreneurial firms reveal positive results in hostile environment compared with conservative firms because entrepreneurial behaviour assists them to survive dramatically with external threats.

2.9.3 Environmental Turbulence

Tsai & Yang (2012) indicated that environmental turbulance is envisioned as the rate and unpredictability of changes in a firm's external environment and it has two dimensions namely: technological turbulance and market turbulance. Technological turbulance is defined as the rate in which technology change in the industry, while market turbulance is the degree of change in which customers prefer changes in an industry. If the level of technological turbulance is high, the firm is obliged to focus on new information for business performance bacause technological change cause investment in new skills and capabilities. Since technology is changing faster, these quickly cause current products and services to be obsolete. In such situation, firms must frequently introduce products and services to avoid product obsolescence.

In addition to that, in market turbulent environment, product preferences and customer demand change constantly. Customers have a wide needs and desires, and are perpetually looking for new products, so firms are often obliged to adjust their offerings to cater for customers' diverse needs (Tsai & Yang, 2012).

Furthermore, according to Su, Peng, Shen & Xiao (2013), a firm's environmental context has a fundamental impact on the firm, and these elements of the environment are essential factor when analysing a firm's competencies. Previous studies explained that environmental turbulance create opportunities and firms should take such opporunities in order to deploy their capabilities. Moreover, a turbulent environment turn firms not to be easily imitated on capabilities and these increase causal ambiguity.Hence the performance implications of firm's capabilities are robust in a highly turbulent environment. Conversely, other reseachers conted that environmental turbulance sometimes cannot lead firms capabilities to be able to respond to the significant changes or that the changes may lead firms's capabilities be obsolete. Lastly, environmental turbulence decreases the effectiveness of a firm's capabilities.

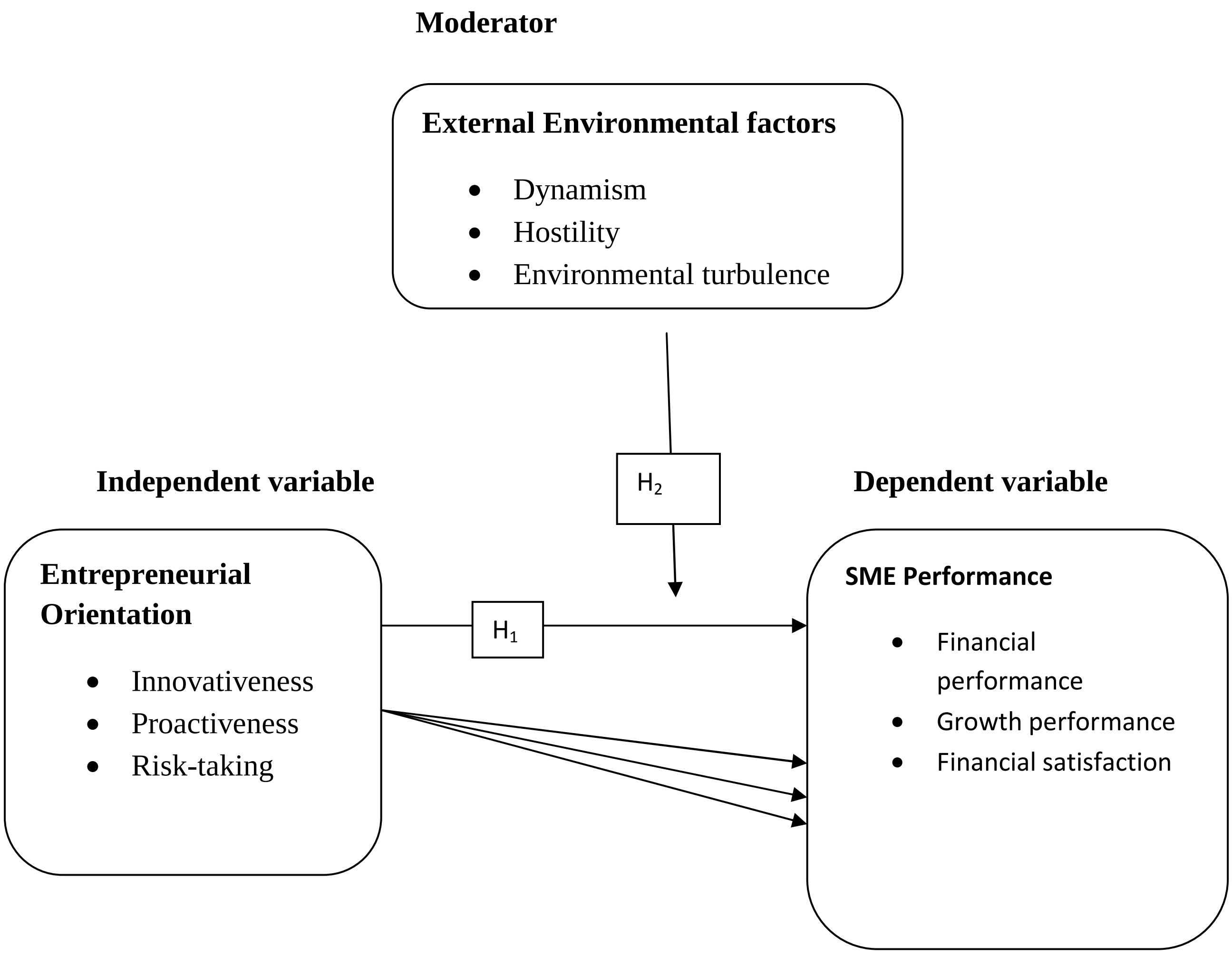
Danneel & Sethi (2011) indicate that firms are viable in changing environment by exploring.Nevertheless, environments distinguished by fast changes in customers, competition, and technologies may have special challenges to exploration.

Extensive environmental turbulance shows that customers' change prefernces on product overtime bocome more price sensitive.Stable environmentl turbulance transpires when the firms are able to predict to customer's preference and can leverage their resoures to achieve optimal perormance. Customers need to have access on informatin in order to encourage their preferences to damtic change (Protano & Mahmood,2015).

2.10 CONCEPTUAL FRAMEWORK OF THE HYPOTHESISED MODEL

This study is going to conceptualize the framework above (Figure 1) in order to demonstrate the relationship between Entrepreneurial Orientation and business performance.Business performance is influenced by Entrepreneurial Oriention and its three dimensions namely; innovativeness, proactiveness and risk-taking (hypotheses, H1, H1a, H1b, H1c). The model also indicates that external factors like dynamism,hostility and environmet turbulance moderate the relationship between EO and performance.

Figure 2.2: The proposed conceptual framework of the relationship between EO and firm performance



Source: Adapted from Lee &Lim(2008).

2.11 CONCLUSION

In most research literature EO has been established as a salient determinant which affects a firm performance in any approach which can be utilized. Entrepreneurial Orientation as put forward by Lumpkin and Dess (1996); Morris & Paul (997); Zahra & Neubaum (1998); Miller (1983) has been found to be in engaging to firm's radical innovation, undertaking somewhat risky ventures and being proactive relative to marketplace opportunities. It is also noted as the critical ingredient for the success of organization and it lead to higher performance (Gathango, Aiko & Machuku, 2014).

Dimensions of EO are recognized in the literature. They include innovativeness, risk- taking, proactiveness, autonomy and aggressiveness (Covin & Dess, 1996). The study will adopt three dimensions. The first one is innovativeness which is basically on solving businesses problems and challenges that are the underpinning for survival and success of the firm well into the future (Hult *et al*., 2004). The second dimension, risk taking is essential as in general organizations which take risks, are more decisive and have the ability to make strategic decisions speedily thus enhancing their overall level of performance. The third dimension being proactiveness suggests that firm's potential benefits are maximised at higher level of proactiveness because other SMEs all behind their competitors when they do not anticipate future market changes proactively and eventually do not manage to catch up strategically (Kreiser, Marino, Kuratko & Kleaver, 2013). Literature has shown that environmental variables are moderators of the EO- performance relationships.

CHAPTER 3: RESEARCH DESIGN AND METHODOLOGY

3.1. INTRODUCTION

Entrepreneurial orientation (EO) is pivotal to exploring prospective market opportunities, developing new business, and enhancing competitive advantage, all of which promote the rapid growth of enterprise**.** This study has hypothesised that environmental factors exert moderating influence in the relationship between the entrepreneurial orientation of a firm and firm's performance. In order to study the relationship of perceived entrepreneurial orientation strategy and a firm's financial performance entrepreneurial orientation and the moderator effect of environmental factors on the relationship between entrepreneurial orientation and firms' financial performance, the relationships must be operationalized in a survey instrument. In line with the study model, this section presents the research design and methods and relevant techniques for testing the significance of the proposed relationship among selected variables . The research problem espoused the gaps in the extant literature related to understanding how environmental factors exerts moderating effect on the relationship between entrepreneurial orientation and firms' financial performance, the relationships must be operationalised in a survey instrument of SMEs in SMEs in Maseru Urban and Peri-urban region of Lesotho. Five hypotheses capturing the research variables and proposed relationships stated in chapter two will be subjected to statistical test. This chapter explicates the research paradigm and design. It identifies the sample population and data collection procedure. Furthermore, the research scales and measurement variables are described as well data evaluation techniques. Finally, the chapter explains the data analysis approach and the hypothesis testing analytical techniques which serve as a springboard for the presentation of the results in the fourth chapter.

3.2 RESEARCH METHODOLOGY AND PARADIGM

According to Collins and Hussey (2003), research methodology is the way the research is approached starting from theoretical underpinning to the state where data is collected and analysed. Furthermore, Bryman & Bell (2011) defined paradigm as "cluster of beliefs and dictates which for scientists in a particular discipline influence what should be studied, how research should be done and how result should be interpreted".An important characteristic of paradigms is that they are not consistent with each other due to differing assumptions and methods (Bryman & Bell 2015). This study adopts a positivist paradigm, allowing it to draw quantitative method in order to capture, analyse and interpret the data collected. Positivism is an epistemological approach that advocates applying natural science methods to study and understand social reality. It entails elements of a deductive approach approach to research (Bryman & Bell, 2011)

Positivist approach generally share the assumptions that reality exists regardless of an observer, waiting to be discovered. Positivist research focus on attaining objectivity and generalizability, its quality is analysed by internal and external validity and reliability (Cecez- Kecmanovic, 2011). According to Kaunda (2012), the main strength of the positivist is that it provides a wide coverage of the range of situations and surveys can be fast and economical especially in instances where statistics are aggregated from fairly large samples. However, this approach has its drawbacks it is inflexible and artificial approach, it does not offer a clear understanding of processes or the importance that individuals will place to particular actions. The approach is not helpful particularly when generating theories so the data collected might be irrelevant for the purpose.

According to Bryan & Bell (2015) quantitative research is research strategy which accentuates the quantification in the collection and analysis of data and ;

- emphasise quantification in the collection and analysis of data
- involves a deductive approach to the relationship between theory and research, emphasising on the testing of theories
- has included the practices and the norms of the natural scientific model and positivism specifically; and
- support social reality as an external, objective reality

However, quantitative research is criticized due to:

- Failure to distinguish people and social institutions from the natural world
- False sense of precision from the measurement process
- Missing the connection between research and everyday life
- A static view of social life.

The framework of the empirical study (Figure 3.1) shows the main steps of conducting the empirical research which leads to the obtaining of the results of the study. The choice of quantitative methodology is dictated by the research question and aim. The research question describes the investigation of how the variables of external environmental factors, entrepreneurial orientation, and the indicators of SMEs' performance in Lesotho are related to each other. The deductive approach that will be employed begins with the general theory of entrepreneurial orientation and main approaches to its analysis and leads to the specific ideas and hypotheses which are developed and tested in the research in African context especially, Lesotho.

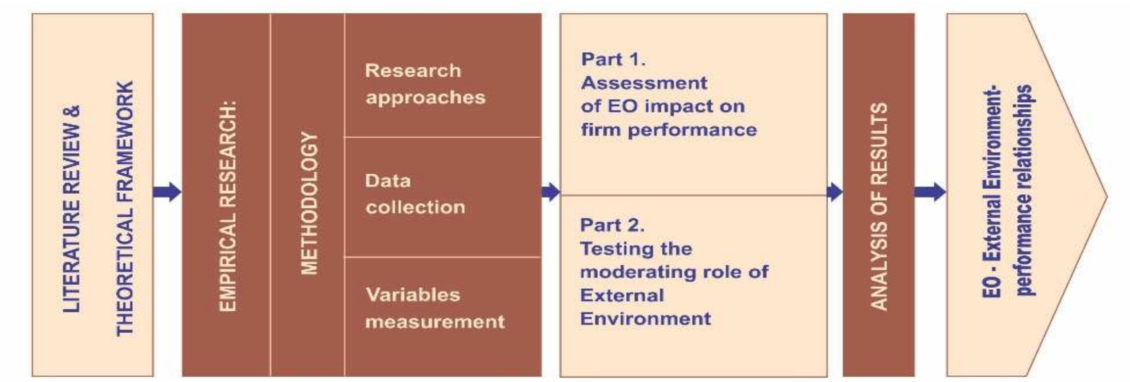


Figure 3.1: Framework of Empirical Study

3.3 RESEARCH DESIGN

Research Design is a plan which describes the methods and procedures for collecting and analysing the required information. It bestows a framework or plan of action for the research (Zikmund, Babin, Carr & Griffin, 2013).

The researcher adopted a questionnaire survey design in order to address the objective of the research which is extending empirical research literature and knowledge in the area of Entrepreneurial Orientation by presuming the relationship between EO construct and SMEs performance. It was conducted through self-administered questionnaires in order to reach the required respondents.Cross sectional survey was employed to collect data at one point in time in order to identify relationships between given variables. With a cross-sectional design, it is only possible to examine relationships between variables, not causality, as the researcher cannot manipulate any of the variables (Bryman & Bell, 2011).

According to Neuman (2011), cross-sectional design is advantageous because the researcher can reach large geographic area, and the respondent can complete the questionnaire at their convenient time and be able to check records if necessary so that they could provide precise information. Nevertheless, there are disadvantages for cross-sectional such as response and selection bias. Also, cross-sectional study cannot give temporal relationship and causal association cannot be inferred(Nadler,1977).

3.4 TARGET POPULATION

Population targeted will be small and medium enterprises owners in Maseru Urban and Maseru Peri-urban because it is considered to be the hub of entrepreneurial activity (Hussain *et al.*, 2015) in Lesotho. Population will be sectorally based, and sectors to be considered are manufacturing and retailing since they are the only sectors which have a consistent database in Ministry of Trade and Industry, Cooperatives and Marketing. For the purpose of this study, companies which will be selected need to fit in the definition of SMEs as per Ministry of Trade and Industry, Cooperatives and Marketing Act of 2011. This indicate that they will be selected based on number of employees and annual sales income.

3.5 SAMPLING TECHNIQUE AND SAMPLE SIZE

Sampling is selecting the segment or subset of the population for investigation then draw some conclusions about the entire population (Bryman & Bell, 2011).Sampling is significant and possibly the most technical part of designing and conducting a survey (Abramzon *et al*, 2014).The reason for sampling strategy is to critically select the sample so that the statistics calculated and reported are precisely represented in the SMEs owners and are relevant subgroups so that the statistics are reliable and precise.

In this study, the convenience sampling technique was employed to select members of the target population. Convenience sampling is a type of non-probabilistic sampling technique where respondents of the target population which meet certain practical criteria like easily accessibility, geographical proximity, availability at needed time, or the willingness to participate are included for the purpose of the study (Etikan, Musa & Alkassi, 2016). Convenience Sampling is essential because it is affordable, easy and the subjects are readily available. The key aim of convenience sampling is to gather information from respondents who are easily accessible to the researcher like recruiting providers attending staff meeting for participation. However, convenience sampling has disadvantages; it is likely to be biased. And secondly results from the data are impossible to be generalised beyond the sample (Acharya, Prakash, Saxena & Nigan, 2013). Moreover, convenience sampling has the problem of outliers. Since convenience sampling has a possibility of high self-selection, the impact of outliers can be more overwhelming. Outliers are considered not to belong to the data (Acharya, Prakash, Saxena & Nigan, 2013).

The study employed convenience sampling technique to obtain the sample from SMEs in Maseru Urban and Peri-urban in order to obtain quantitative data due to the need for access to the population and time constraints. Business owners were assured of confidentiality with regard to the data collected. In the case of owner not available, his/her proxy will be used to represent the enterprise (Hussain *et al*., 2015). A sample size of 200 SMEs was selected for this study and In this study, the self-report method was employed in which the respondents answered with paper and pen.

3.6 THE RESEARCH INSTRUMENT AND OPERATIONALISATION OF VARIABLES

3.6.1 Preparation of the Multi-Item Scale

The researcher employed a 7-Likert Scale tools to assess different constructs measures from previous studies on EO, performance and external environment and the will be supported by literature for reliability and validity. The Likert technique consists of a series of statement to which one responds using a scale of possible answers. 7-Strongly agree, 6-agree, 5- moderately agree, 4- neutral, 3-moderately disagree, 2-disagree and 1-strongly disagree (see Table 3.1).

Table 3.1: 7-point Likert Scale used in the Questionnaire Development.

Strongly Agree	Agree	Moderately Agree	Neutral	Somewhat Disagree	Disagree	Strongly Disagree
1	2	3	4	5	6	7

3.6.2 Entrepreneurial Orientation (EO)

For this study EO was scaled by using Covin & Slevin (1991) nine item scale, it is most widely questionnaire for measuring constructs. The first three items on the scale will assess the business innovativeness, the second three items will assess business towards proactiveness, and the last three items will assess the business's risk-taking propensity. The respondents will be asked to "show their responses to individual question on a seven- point Likert type scale (1=strongly agree, 7=strongly disagree and 4=neutral)" (Covin & Slevin ,1991). The responses will determine an entrepreneurial index, meaning the higher the scores reflect entrepreneurial Orientation.

3.6.3 Business Performance

The study is going to utilize performance measure developed by Gupta and Govindarajan (1984). Firstly, respondents will be asked to indicate on a "7-point Likert type scale ranging from (1= unimportance 4= neutral and 7= very important), the degree of importance of the business assess the following factors: sales growth rate, market share, operating profits, profit to sales ratio" (Gupta and Govindarajan ,1984).

Moreover, respondents will be requested to show another 7 point Likert scale, which will measure the satisfaction of respondents ranging from (1=highly dissatisfied to 7=extremely satisfied), the extent to which SMEs owners are currently satisfied with their firm's performance on each of these same financial performance criteria.

3.6.4 External Environment

For this study, a three-item scale developed by Khandwalla (1976/77) will be used to measure environmental hostility. The respondents' rating on these three items will be averaged to arrive at a single environment hostility index for each firm. The higher the index, the more hostile the firm's environment (Covin & Slevin, 1989). For measuring dynamism, "turbulence scale of the environment uncertainty scale "(Naman & Slevin ,1993) will be employed is going to be used, because dynamism create level of uncertainty. The 7-point Likert-type scale (1=strongly disagree and 7=strongly agree) will be employed. The mean score assess "the degree of uncertainty facing the business and the higher the score, the higher the degree of uncertainty" (Naman & Slevin ,1993).

3.7 DATA COLLECTION PROCEDURE.

Since most of the SMEs owners do not own computers nor have access on internet, it will not be easy to administer data online, so data collection was conducted through the use of self – administered questionnaire in a survey. The researcher conducted a pilot test of the survey using the data collection tool in order to address ambiguity and other anomalies that need corrections. Close ended questions will be used to conduct the research.

Trained data collectors were recruited for convenience and speeding up of the process of collecting data from various respondents. The researcher recruited two data collectors at a reasonable fee and they worked together to reach the desired sample. The questionnaires were designed in English and the recruited data collectors translated the questionnaires to Sesotho where necessary in order to reach respondents with limited reading abilities and uneducated

3.8 DATA MANAGEMENT

Collected data were coded in excel sheet. The data was cleaned and analysed using SPSS. The quantitative data was explored, reviewed and checked for consistencies.

3.9 METHOD OF DATA ANALYSIS.

The researcher was assisted by trained statistician to analyse the dataset. The multi-stage statistical method employed in analyzing the obtained data are as follows:

3.9.1 Reliability

Reliability is concerned with whether scores to items on an instrument are internally consistent, and whether it can secure consistent, dependant and replicable results when measurements are repeated with the same instrument (Cresswell, 2014, p.295 ; Zohrabi, 2013).For a measure to be reliable it should have three factors inclusive of :

Stability- whether a study is confident that a measure is stable over time and that it does not fluctuate if a measure is administered and re administered.

Internal reliability –whether the indicators that make up the scale are consistent

Inter-observer consistency-When more than one observer is involved are the different observers involved in recording observations consistent in what they record.

For this study, instruments to be utilized to measure EO and BP pioneered by (Covin & Slevin, 1991, and Gupta & Govindarajan, 1984) have been repeatedly used with previous studies and had born consistent results over the years, thus refer to reliability for this study.The cronabch alpha coefficient was employed to establish reliabilities of the constructs.Cronbach coefficient alpha (*a*) indicates overall reliability of a questionnaire and values around 0.8 are good or 0.7 for ability tests (Andy, 2009, p.681).

3.9.2 Validity analysis

In this study, the confirmatory measurement model was utilized to assess uni-dimensionality, convergent validity and construct reliability. Therefore, measurement model was performed on both independent and dependent variables (Wong, 2002) to evaluate how good the observed variables are linked to a set of latent variables (Choi, 2002). In fact, all measurement models were established based on theoretical and empirical backgrounds suggested in previous studies (Choi, 2010).

3.9.2.1 Construct Validity

Hair et al. (2006) as cited in Chong (2008, p. 144) defined construct validity as “the degree to which a set of measure items actually assess the identical construct”. In this study, factor analysis with PCA and Varimax rotation was performed independently on the core practices of EO, environmental factors and financial performance in order to attain the dimensions of each construct as well as to examine the construct validity (Hair et al., 2006).

3.9.3 Descriptive Analysis

Describing data will be performed through descriptive statistics indicate how to distribute data, to categorize data and indicate variation of this data. Descriptive statistics measured distribution of data so that it portray percentages which will be used since they disclose the relative significance of figures more clearly than the original data. Mean, and standard deviation scores were computed to establish the central tendencies. The mean is the average score of the observed variables (Field, 2009).

3.9.4 Correlation Analysis

Correlation is a way of measuring the extent to which two variables are related. It measures the pattern of responses across variables and it can be done by calculating the covariance. If the correlation coefficient is precisely-1 or +1. It indicates there is a perfect correlation between the variables. And if the one variable is known the other can be predicted. When the correlation coefficient ranges between 0 and -1, it indicates a negative correlation between variables, thus the higher one variable is the lower, the other will be. And when the correlation coefficient is between 0 and +1, it show a positive correlation between the variables, meaning that the higher one variable is the higher, the other will be.

3.9.5 Multiple Regression Analysis

The study adopted the multiple regression to predict the SMEs' financial performance based on OE constructs which was developed using a 7-Likert scale paradigm .Thus, the responses resulted a "multi-dimensional variable and it was therefore required to reduce it to a one-dimensional variable by applying EFA" (Hosmer et al., 2013). The uni-dimensional variable is "the extracted common factor that explains at least 50% of the variance (or information) contained in the various items defining the company performance" (Hosmer et al., 2013). Therefore, the dependent variable(Finacial performance) is no longer ordinal and has been transformed into a continuous variable .

For multiple regression analysis to generalize underlying assumptions should be met, they include;

1. Normality- assuming that the residuals in the model are random, normally distributed variables with the mean of 0.
2. Independence- assuming that all of the values of the outcome variable are independent, meaning that each value of the outcome variable comes from the separate entity.
3. Homoscedasticity is assumed, variance must be the same for each variable.
4. Multicollinearity, predictor variables should not correlate too highly.

5. Linearity, it assumes that there is a linear relationship between any continuous predictors and the outcome variable.

In this study both visual inspection and diagnostic computational checks were carried out to infer whether or not there is normality in the distribution of the response variable. The Shapiro-Wilk tests was employed to ascertain the results of the visual inspection.

The corefficient of determination was employed to establish the robustness ans fitness of the estimated models. Furthemore, the p-value was employed in determining statistical signioficance (Maddala &Lahiri, 2009).

3.9.6 Test of Hypothesis

In this study, the stepwise regression analysis was employed to test our hypotheses. Firstly, we calculated the variance inflation factors (VIF) for all of the regressions in the model to test for the multicollinearity in order to avoid multicollinearity's disturbance. All of the VIF values are between two to five, indicating no concerns regarding multicollinearity. At the same time, we used mean-centered variables for all of the controls and independent variables in order to remedy potential multicollinearity issues. The stepwise regression aided in estimating the moderating effect of environmental factors on the relationship between EO and firm’s performance.

3.10 LIMITATIONS

Convenience sampling employed can lead to under-presentation or over-presentation. The results of the convenience sampling cannot be generalized to the population being studied because of the potential bias of the sampling technique. The study was conducted from sample population of SMEs in Maseru District. Results will be carefully generalized since the competitive situation or SME performance from other districts in the country may differ. Other limitation include the reluctance of the respondents give honest response with regards to questions associated with their business and growth.

3.11 ETHICAL CONSIDERATION

It is the obligation for researcher to protect their research participants; develop trust with them ;promote honesty of research; take care of misconduct and impropriety which might be a problem on their organizations ; deal with challenging problems. Ethical questions should be transparent in the issues like personal disclosure, authenticity, and credibility of the research report (Cresswell, 2014).

Honesty and openness will be maintained throughout the whole research process. Anonymity of the results for this study will be applied and privacy of the respondents is guaranteed. Confidentiality measures will be taken to ensure that identifying information of the respondents is kept only to the researcher. Wits Business School letter of research approval and letter of introduction will accompany this exercise to assure that this research is ethically sound.

3.12 CONCLUSION

The study was conducted under the inspiration of the positivist paradigm. The data was collected through self-administered questionnaire and the assistance of data collectors. A total of 200 questionnaires were administered to the SMEs in Maseru District. A number of one hundred and eighteen(n=118) useable responses were received. Data analytical tools include descriptive statistics, univariate analysis , normality test(Shapiro-Wilk test) and factor analysis. Multiple regression approach was employed to predict the SMEs’ financial performance based on OE constructs which was developed using a 7-Likert scale Approach. In order test the hypotheses, the stepwise regression analysis was adopted. The succeeding chapter focuses on the output of data analysis.

CHAPTER 4: RESULTS AND DISCUSSSION

4.1 INTRODUCTION

The thrust of this chapter is to present the results and analyses of the findings of this study. This chapter describes the response rate based on the useable questionnaires returned and the respondents' characteristics that informs the data analysis procedures. Furthermore, the study presents the output of the reliability and factor analysis.

4.2 RESPONSE RATE

As stated in chapter three of this study, 200 questionnaires were administered and 118 fully completed useable surveys were retrieved. This gives a response rate of 59%. Several authors have recommended minimum acceptable response rates, but there is no consistency in these recommendations, with suggested values including 50 %(Bailey, 1987), 60%(Schutt, 1999) and 75%(Babbie, 1990), and some journals have enforced a lower limit for response rates, for example 80%(Fincham, 2008) . This lack of consensus, and the fact that the impact of a particular level of nonresponse may vary between studies suggests that authors (and readers) should consider each study, and the potential impact of nonresponse bias, on its own merits(Studer, Baggio, Mohler-Kuo, Dermota, Gaume, Bertholet, Daeppen, and Gmel, 2013; Christley, 2015).

4.3 RESPONDENT'S CHARACTERISTICS

Considering the gender distribution of the respondents, the table shows there were more males (N=85, 72.03%) than females (N=33, 27.97%) who responded to the questionnaires. The educational levels of the respondents were examined. The table revealed that most of the respondents were bachelor degree holders (N=44, 37.29%). This was followed by diploma holders (N=35, 29.66%) and who were, in turn, followed by less than high school holders (N=20, 16.95%). Certificate holders (N=16, 13.56%) came in fourth in this regard while the least-ranked were the doctoral degree holders (N=20, 16.95%).

Table 4.1: Frequency Distribution of Demographic Characteristics N=118(100%)

Variable	Category	Freq.	Percent (%)
Gender			
	Female	33	27.97
	Male	85	72.03
Educational Level			
	Bachelor degree	44	37.29
	Certificate	16	13.56
	Diploma	35	29.66
	Doctoral degree	3	2.54
	Less than High School	20	16.95
Years of Operation	1-5yrs	77	62.25
	6-10yrs	25	21.19
	11-15yrs	11	9.32
	16-20yrs	3	2.54
	21-25yrs	2	1.69

The frequency distribution of the number of years of operation of the businesses was examined. The table reveals that highest numbers of SMEs in Lesotho that participated in the study were those who have been operating between 1-5yrs (N=77, 62.25%). The percentages accounted by business operating between 6-10yrs,11-15yrs, 16-20yrs and 21-25yrs are 21.19%(N=25), 9.32%(N=11), 2.54%(N=3%) and 1.69%(N=1.69%) respectively.

4.4 UNIVARIATE ANALYSIS

The descriptive statistics and the output of the univariate analysis are summarised in Table 4.2

Table 4.2: Univariate Analysis.

Variable		**Financial Performance**
		Mean(Standard Error)
Gender[1]	**N=118(100%)**	**68.79(1.54)**[a]
Male	85(69.79)	69.36(1.90)
Female	33(67.31)	67.31(2.58)
Educational Level	**N=118(100%)**	**68.79(16.77)*** [b]
Bachelor degree	44(37.29%)	**63.77(17.07)**
Certificate	16(13.56%)	76.88(11.34)
Diploma	35(29.66%)	67.55(17.69)
Doctoral degree	3(2.54%)	63.81(17.86)
Less than High School	20(16.95%)	76.29(114.05)
Years of Operation	**N=118(100%)**	**68.79(16.77)** [b]
1-5yrs	77(65.25%)	66.81(16.60)
6-10yrs	25(21.19%)	72.40(17.97)
11-15yrs	11(9.32%)	69.87(14.36)
16-20yrs	3(2.54%)	70.95(16.05
21-25yrs	2(1.69%)	90.71(5.05)

* Statistically significant P-value at <0.05. [a]t-test score, [b]Omnibus F test for a one-way ANOVA

The results of the t-test indicated that there is no significant difference between the means scores of financial performances influenced by gender. Additionally, omnibus F-test for a one-way ANOVA showed that the effect of educational level on financial performance was statistically significant across educational level categories ($p<0.05$). Post-hoc analyses using the Scheffé post hoc criterion for significance indicated that there is a significant differences in the financial performances of SMEs across the educational levels of owners/managers.Furthermore, an analysis of variance showed that there is no significant (p>0.05) difference in the mean financial performance scores of SMEs across years of operation of their businesses.

4.5 DESCRIPTIVE STATISTICS

The descriptive statistics was carried out to have an overall scenario with regard to entrepreneurial orientation strategies, environmental factors and financial performance constructs. The values are presented in Table 4.3. The scores will be ranked as high or low based on the value of the mean score.

Table 4.3: Descriptive Statistics of the Constructs

Constructs	Mean	Standard Deviation	Minimum	Maximum
Entrepreneurial Orientation			1	7
Risk -taking	3.87	1.705	1	7
Innovation	3.64	1.815	1	7
Proactiveness	4.59	1.636	1	7
Environmental factors	4.36	2.186	1	7
Financial Performance	4.82	1.648	1	7

4.6 RELIABILITY ANALYSIS

In this study, the Cronbach Alpha reliability test was employed to mitigate issues about common method variance. The reliabilities, upon careful checks, ranged from 0.82 to 0.90, which is an acceptable range for an exploratory study according to Nunnally (1978). The general Cronbach Alpha of the scales adopted is 0.85, an indication that the reliability of the scales is rationally high and depicts high internal consistency among the measurement items(Nunnally,1978).

Table 4.4: Reliability Scores of the Constructs

Construct	Items	Cronbach's alpha	Level of Reliability
Risk -taking	3	0.8951	Excellent
Innovation	3	0.8718	Excellent
Proactiveness	3	0.8413	Excellent
Environmental factors	11	0.8272	Excellent
Financial Performance	10	0.8308	Excellent

Construct Items

Risk-taking, innovation, proactiveness, environmental factors and financial performance had Cronbach's Alpha reliability scores of 0.90, 0.87, 0.84, 0.82 and 0.83 respectively (see Table 4.3) these scales are way above the benchmark of 0.7 (Nunnally, 1978). Across the subscales, a coefficient of 0.85 was reported for the Cronbach's alpha, an indication of good reliability.

4.7 FACTOR ANALYSIS

Table 4.5 shows the Kaiser-Meyer-Olkin measure of sampling adequacy (KMO) and Bartlett's test of sphericity.

Table 4.5: KMO and Bartlett's tests

Test		Score
Kaiser-Meyer-Olkin measure of sampling adequacy (KMO)		0.7428
Bartlett's test of sphericity	Approx. Chi-square	1174.63
	Df	171
	Sig.	0.00

The KMO value of 0.7428 indicated the sample adequancy as it was "greater than the minimum required vaue of 0.5"(Nunnally,1978). For the Bartlett's test of sphericity, the p-value of 0.000 indicates that the "hypothesised identity matrix is not an identity matrix since the p-value is less than 0.05 indicating that there are some relationships between the variables and hence the factor analysis is appropriate" (Nunnally,1978).

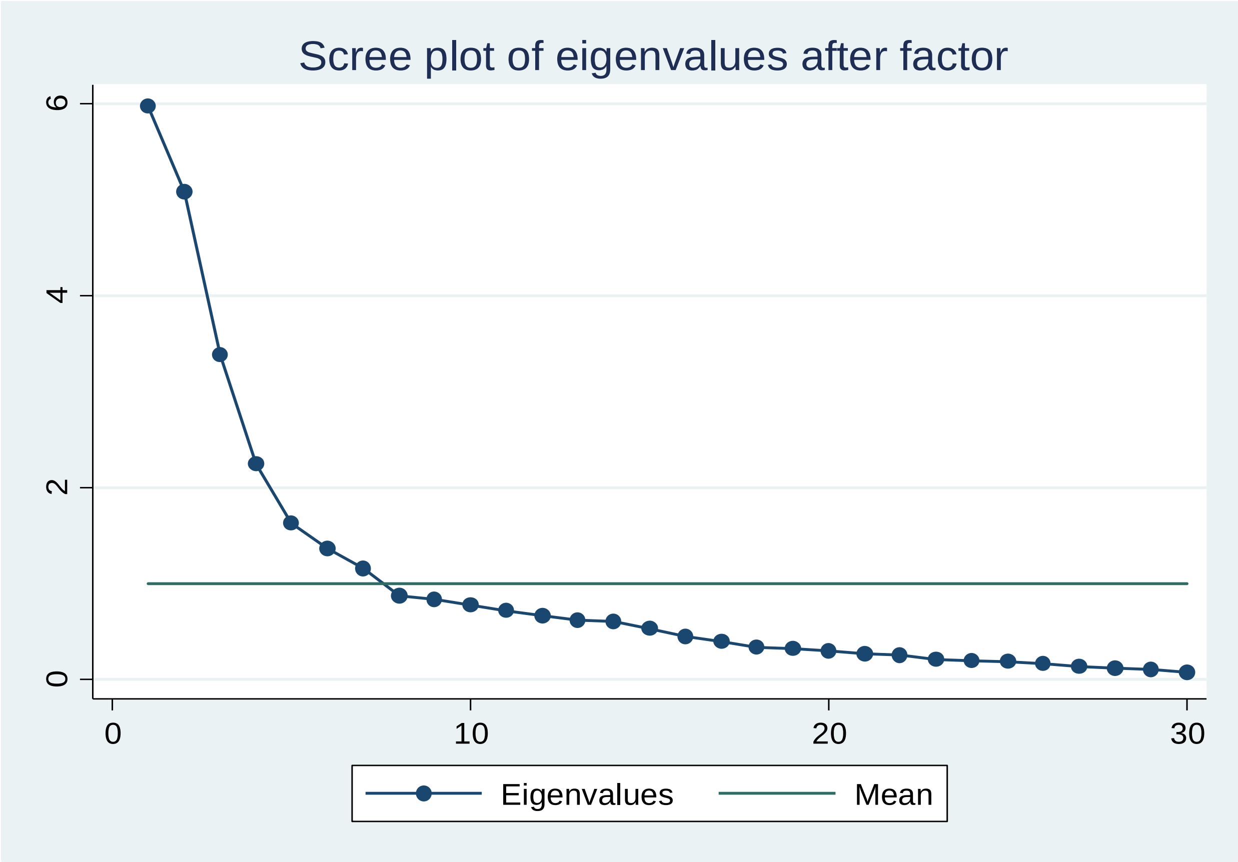


Figure 4.1: Scree Plot.

Figure 4.1 is a display of the scree plot .By inspection, there are 7 factors above the elbow which indicates distinct components extracted as shown in the mappings of the scree plot.The 7 factors retained accounted for 69.44% of the variations in all the variables.

The environmental factors construct had these variables (1) “Declining markets of products/ services area major challenge in our industry” which possessed cross loading (0.4710 & 0.4832) ;(2) “Our business environment causes a great deal of threat to the survival of our firm” which possessed cross loading (0.4917 & 0.3988) and;(3) “In our industry, demand and customer preferences are unpredictable” which possessed cross loading (0.5082 &0.5448). Likewise, the entrepreneurial orientation construct had the variable “Our company has the tendency of changing the product or service lines” which possessed cross loading (0.5912 &0.4562).These variables were excluded from the final constructs that were subjected to analysis. After those observations were dropped, subsequent the output of the factor analysis reveals that 7 seven factors that are retained accounted for 69. 57% of the total variance explained(see Table 4.6).

Table 4.6: Total Variance Explained

	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	5.961	19.869	19.869	5.961	19.869	19.869
2	5.109	17.028	36.898	5.109	17.028	36.898
3	3.399	11.330	48.228	3.399	11.330	48.228
4	2.267	7.555	55.783	2.267	7.555	55.783
5	1.612	5.373	61.156	1.612	5.373	61.156
6	1.373	4.578	65.734	1.373	4.578	65.734
7	1.152	3.839	69.573	1.152	3.839	69.573
8	.886	2.954	72.527			
9	.840	2.801	75.329			
10	.772	2.572	77.901			
11	.715	2.384	80.285			
12	.664	2.213	82.498			
13	.614	2.047	84.545			
14	.599	1.997	86.542			
15	.534	1.781	88.323			
16	.451	1.503	89.826			
17	.401	1.338	91.164			
18	.338	1.126	92.290			

19	.316	1.055	93.345			
20	.295	.984	94.329			
21	.272	.907	95.235			
22	.259	.862	96.097			
23	.205	.683	96.780			
24	.198	.660	97.440			
25	.187	.624	98.064			
26	.162	.539	98.602			
27	.129	.429	99.031			
28	.110	.367	99.398			
29	.102	.339	99.737			
30	.079	.263	100.000			

Extraction Method: Principal Component Analysis.

The communality values were then “checked to explain to measure variability of each observed variable that could be explained by the extracted factors”(Field , 2009). A low communality value (≤0.3) indicates that the item does not fit well with another item in its component(Pallant,2007).Table 4.7 shows the communalities of the thirty variables were relatively high ranging from 0.553(EO7) to 0.839(ENV01).This means that the variables fitted well with other variables in their factor.This is further illustrated in the component plot in rotated space.

Table 4.7. Communalities

	Initial	Extraction
EO1	1.000	.799
EO2	1.000	.803
EO3	1.000	.799
EO4	1.000	.744
EO5	1.000	.769
EO6	1.000	.672
EO7	1.000	.553
E08	1.000	.563
E09	1.000	.740
FP01	1.000	.761
FP02	1.000	.810
FP03	1.000	.707
FP04	1.000	.490
FP05	1.000	.709
FP06	1.000	.782
FP07	1.000	.832
FP08	1.000	.827
FP09	1.000	.681
FP10	1.000	.767
ENV01	1.000	.839
ENV02	1.000	.712
ENV03	1.000	.645
ENV04	1.000	.574

ENV05	1.000	.524
ENV06	1.000	.585
ENV07	1.000	.731
ENV08	1.000	.663
ENV09	1.000	.517
ENV10	1.000	.645
ENV11	1.000	.629

Extraction Method: Principal
Component Analysis.

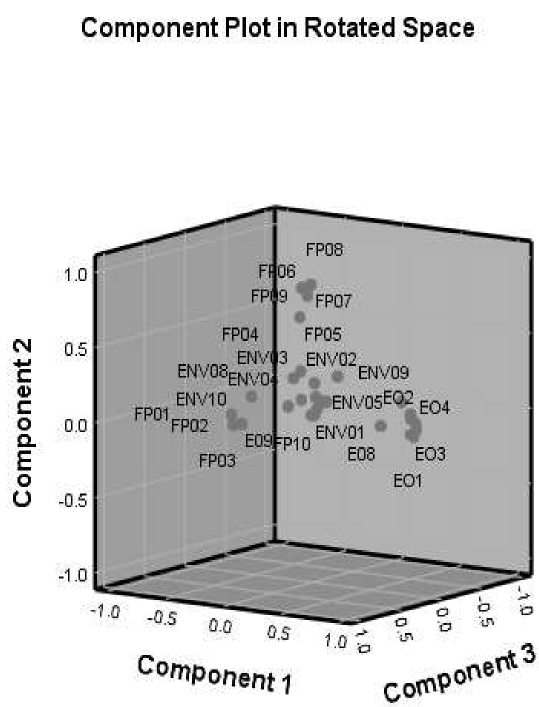


Figure 4.2 : Component Plot after Varimax Rotation.

The ouput of the factor analysis and the corresponding items are in Table 4.8.

Table 4.8: Loadings and Cross-Loadings for the Measurement Model (Rotated Component Matrix)

		Factor						
Constructs	Items	1	2	3	4	5	6	7
Financial Performance								
FP01	Satisfaction with Returns on Assets			0.8483				
FP02	Satisfaction with Return on Investment			0.8874				
FP03	Satisfaction with Return on Equity			0.8270				
FP04	Satisfaction with Cash flows			0.6442				
FP05	Satisfaction with Operating Profits		0.7087			0.3061		
FP06	Satisfaction with Sales Volume/Turnover		0.8708					
FP07	Satisfaction with Sales Growth Rate		0.8940					
FP08	Satisfaction with Market Share		0.8681					
FP09	Satisfaction with Market Development		0.8093					
FP10	Satisfaction with New Product Development				0.8238			
EO								
EO1	Our firm takes low risk projects with normal certain rates of return	0.8596						

EO2	My firm typically seeks to avoid competitive clashes, preferring a live and let live attitude	0.8422						
EO3	2.1.3 Our firm has a cautious, wait and see attitude in order to minimise the probability of exploiting potential when faced with uncertainty	0.8673						
EO4	Our firm emphases on R&D technological innovation	0.8028						
EO5	How many new lines of products or services have your business marketed in the past 5 years	0.8187						
EO6	No new lines of products or services	0.7612						
E09	My firm regularly responds to actions which competitors initiates			0.8121				
Environmental Factors								
ENV01	The external environment our firm operates in has level of risk and uncertainty				0.8866			
ENV02	The external environment poses serious threats to our firm's survival and well being				0.6718			0.4077

ENV04	Tough price competition in a major challenge in our industry						0.6484	
ENV06	Government inference is a major challenge in our industry						0.6040	0.3767
ENV07	Our firm much its marketing practices frequently						0.8392	
ENV09	The ratings of our product is high					0.6242		
ENV10	The ratings of services in our business is high					0.7207		
ENV11	In our industry, actions of competitors are unpredictable					0.7292		

4.8 HYPOTHESIS TESTING

4.8.1 Correlation Analysis

The Pearson's correlation coefficient test was computed since the variables shows evidence of normalilty. The result is presented in Table 4.9.

Table 4.9: Output the Pearson Correlation Analysis

Variables	Mean	SD	Innovativeness	Proactiveness	Risk-taking	Financial Performance
Innovativeness	3.64	1.815	1.0000			
Proactiveness	4.59	1.636	0.4067	1.0000		
Risk-taking	3.87	1.705	0.7005**	0.4067**	1.0000	
Financial Performance	4.82	1.648	0.1100	0.2624**	-0.0125	1.0000

NB. **correlation significant at 0.05 (2-tailed)

The results support a positive relationship between financial performance and Innovativeness; as well as financial performance and Proactiveness. The results further revealed that there is a negative relationship between financial performance and risk –taking. Nevertheless, the output of the correlation analysis is not sufficient to infer that the independent variables affect financial performance because correlation does not necessarily imply causation (Keller, 2011).

The multiple regression analysis framework tool was employed to establish the relationship between the dependent variable (FP) and the independent variables which are risk -taking, and innovativeness on financial performance (FP).

4.8.2. The Regression Model

$\boldsymbol{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon}$

where $\beta 0$, $\beta 1$, $\beta 2$, $\beta 3$ are the regression coefficients of the Risk -taking, Innovation and Proactiveness independent variables respectively and ε is the error term.

As stated by Keller (2011), "the independent variables may also be functions of other variables". He gave further details on the assumptions that must hold:

1.The residuals(ε) must be normaly distributed

2. The errors must demonstrate property of independence.

3. The mean distribution of the error is 0.

4. The standard deviation of ε is $\sigma\varepsilon$ and should be a constant.

Any deviation from the above requirements requires the use of non-parametric tests. The results of the diagnostic test shows an overwhelming evidence of normality and adherence to the stated assumptions.The model summary in Table 4.10: shows that risk -taking, and innovativeness predicts 11.1% of variation in Financial Performance (adjusted r-square = 0.111).

Table 4.10: Model summary.

Model	R	R Square	Adjusted R
I	0.3659	0.1339	0.1111
a. Predictors: (Intercept), Risk -taking, Innovativeness, Proactiveness			

The ANOVA table below (see Table 4.11) shows the results for the hypothesis that there is a linear relationship between at least one of the independent variables and Financial Performance.

Table 4.11: ANOVA summary.

Anova[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	1911.51388	3	637.171292	5.88	0.0009
	Residual	12363.4438	114	108.451261		
	Total	14274.9576	117	122.008185		
a. Dependent Variable: Financial Performance						
b. Predictors: (Intercept), Risk -taking, Innovativeness, Proactiveness						

The results (F-value = 5.88, p-value = 0.001) indicates that there is a significant($p<0$) linear relationship between Risk -taking, Innovativeness, Proactiveness and Financial Performance repectively .The contribution of each variable in predicting Financial Performance is shown in the coefficients table below.

Table 4.12: Ordinary Least Square Regression Estimate of Entrepreneurial Orientation (Innovativeness, Proactiveness, and Risk-taking) on Financial Performance

Variable	**β**	Std. Error	**t**	**P-value**
Innovativeness	0.719	0.286	2.51	0.01**
Proactiveness	1.367	0.354	3.87	0.00**
Risk-taking	-0.129	0.293	-0.44	0.66
Constant	34.049	4.491	7.58	0.00**

* * Statistically significant P-value at <0.05., β. =regression coefficient,

4.8.2.1. Interpretation of Coefficients

Intercept – the intercept is $\beta 0$ = 34.049.This is the average financial performance when all the independent variables are zero. It is often misleading to interpret this value especially if the range of the independent variables is not taken into consideration.

Innovativeness – β1 = 0.719.The relationship between financial performance and innovativeness is described by this coefficient value. It can be inferred that ns that additional increase in unit of **innovativeness** result in mean increase in financial performance by 71.19%, all other independent variables held constant.

Proactiveness – β2 = 1.367. Similarly, this coefficient value specifies that in this sample, for additional unit increase of **proactiveness**, the mean **financial performance** increases by 100.36%.

Risk-taking – β3 = -0.129 .Similarly, this can be interpreted as additional increase in **risk-taking** results in 12.9% decrease in **financial performance** .

The final regression model is given by:

Financial Performance = 34.049-0.71 Innovativeness + 1.367 + Proactiveness - 0.129 Risk-taking + ε.

4.8.3 Moderating Role of Environmental Factors on the Relationship between Entrepreneurial Orientation and Financial Performance.

Table **4.13** clarifies that the entrance environmental factors as (moderator variable) between EO (independent variable) and P (dependent variable) improved significant the R^2 value as well as the improved significance illustrated through change value in F value (3.22) which means continuation in analysis process through transition to moderating/stepwise regression analysis.

Table 4.13: Stepwise Regression Model showing Moderating Role of Environmental Factors in the relationship between EO Constructs and Financial Performance

Model	R	R^2	Adj R^2	P-value	Factors	β	t	P-value
I	0.3659	0.1339	0.1111	0.0009				
					Innovativeness	-0.719	-2.51	0.01**
					Proactiveness	1.367	3.87	0.00**
					Risk-taking	-0.129	-0.44	0.66
II		0.2435	0.2167	0.0000				
					Innovativeness	-0.658	-2.54	0.016
					Proactiveness	1.159	3.44	0.001
					Risk-taking	-0.179	-0.65	0.516
					Environmental Factors	0.275	4.05	0.00**

* * Statistically significant P-value at <0.05., β. =regression coefficient.

In Table 4.13, Model I indicates that entrepreneurial orientation construct was statistically significant (p =0.0009) with financial performance. Model II reveals the details of the inclusion of the interactive term (Environmental factors) in the model. The coefficient of determination increased from 13.39% to 24.35%.

The regression model is given by:

Financial Performance = 24.286 + 0.658 Innovativeness + 1.159 Proactiveness -0.179 Risk-taking +0.275Environmental factors + *ε*

Further examination of the extent of the moderating effect of environmental factors construct on the relationship between EO and FP was examined in Model 3. The composite value of the EO i.e. Combination of proactiveness, risk taking and innovativeness was employed in the analysis. The multiplicative factor was used to generate an interactive term (**EO*ENV)** between EO and environmental factors . This was subjected to regression analysis and the output is reported in Table 4.14.

Table 4.14: Multiple Regressions showing Moderating effect of the interaction term

Model III	B	SE	t	p
Constant	27.425	10.4949	.2426	.0854
EO	.864	.0653	1.224	0.058
ENV	0.444	0.248	2.47	0.031
EO*ENV	0.083	0.002	4.00	0.001

* * Statistically significant P-value at <0.05., β. =regression coefficient., SE= standard error estimate

The results of the multiple regression shows that there was a significant interaction between environmental factors and entrepreneurial orientation in predicting SME financial performance in Lesostho .Thus the hypothesis H_2 that "the external environment will moderate the relationship between EO and performance" is valid .

4.9 TESTING THE VALIDITY OF THE MODEL

The model is invalid if the null hypothesis is true. However if the null hypothesis is rejected, the model does have some validity.

$H0$: $\beta 1 = \beta 2 = \beta 3 = 0$

$H1$: $At\ least\ one\ \beta i\ is\ not\ equal\ to$ 0

It can be inferred from the output in Table 4.9 above, that the significance F value of 0.0009 is less than the significance value of 5%.One would therefore reject the null hypothesis and conclude that there is a great deal of evidence to infer that the model is valid.

Testing the Coefficients

For each of the independent variables, we test for (i = 1, 2, 3).

$H0$: $\beta i = 0$,$H1$: $\beta i \neq 0$

The summaries of the outputshowing the coefficients of the are reported in Table 4.15:

Table 4.15: Testing of Significance of the Coefficients.

Coeffeicients	P-value
$\beta 1$	0.01**
$\beta 2$	0.00**
$\beta 3$	0.66

There is an overwhelming evidence that at 5% significance level,innovativeness and proactiveness are linearly related to financial performance; this is because the p-value for the corresponding coefficients are less than 5%. There is also weak evidence to conclude that risk-taking is linearly related to financial performance.

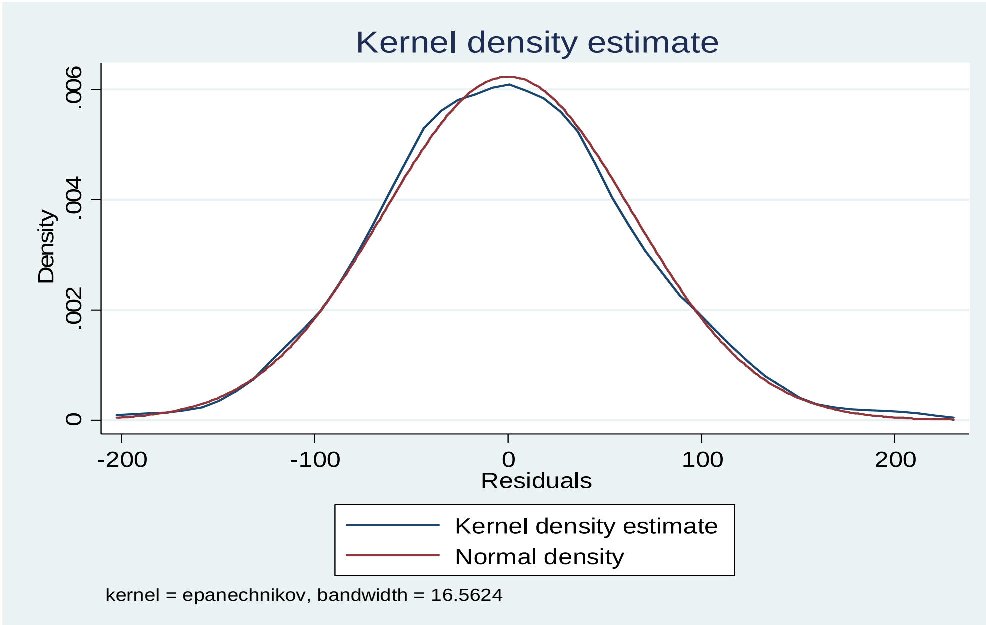
Normality Test for Residuals

The normality of the residuals of outcome variable was examined. Both visual and statistical examination were employed. The histogram and kernel density were employed to visually inspect and assess the normality of the distribution. The results are presented in Figures 4.3. and 4.4 The residuals of the financial performance score reveals evidence of normality in the distribution. The Shapiro-Wilk test reported in Table 4.16 below shows that there is an overwhelming evidence of normality ($p>0.05$) of the distribution of the response variable.

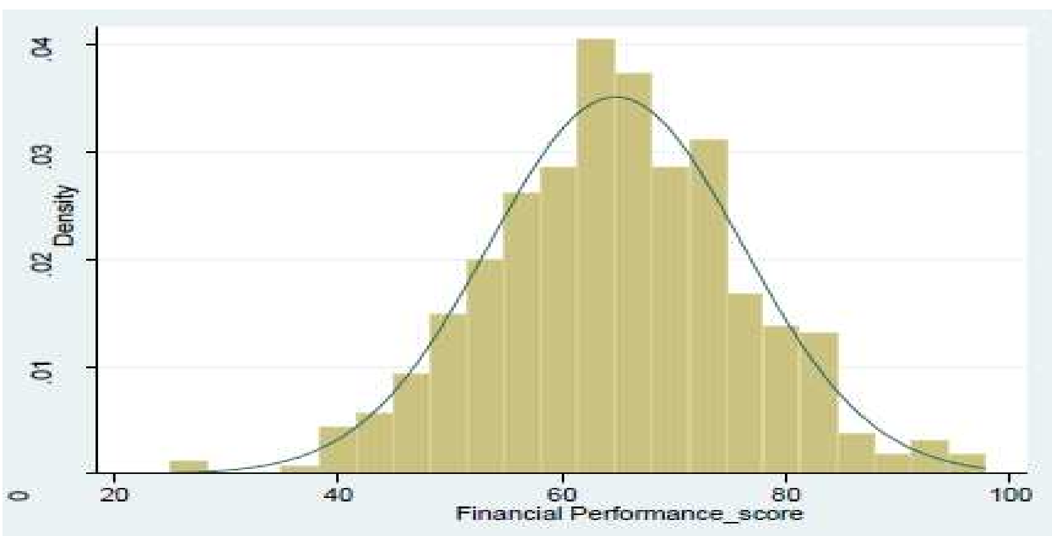
Table 4.16: Shapiro-Wilk test for Normality

Variable	Obs	W	V	z	Prob>z
r	118	0.8817	1.016	0.038	0.37370

NB: The p-value of 0.37370 is not significant indicating the strength of evidence of normality of the residuals for the financial performance (FP_Percent) score distribution.



Figures 4.3 The Kernel Density Showing Normality of Residuals for Financial Performance (FP_Percent)



Figures 4.4: Histogram Plot for Normality Test for the Distribution of the Financial Performance (FP_Percent)

4.10 CONCLUDING REMARKS

The output of the analysis shows that the reliability of the constructs(cronach alpha score) was above 0.7. The response variable (financial performance) was normally distributed and subsequently an ordinary least square multiple regression analysis was conducted. The KMO value of 0.7428 indicated sample adequancy as it was greater than the minimum required vaue of 0.5.A high communality value implied that variables fitted well with other variables in their factor loadingsf.Also, the analysis revealed the moderating effect of the environmental factors on the relationship between EO and financial performance and lastly, the ouput of the hypotheses test were reported .

CHAPTER 5: DISCUSSION

5.1 INTRODUCTION

In this chapter, efforts are directed towards explicating the results presented in chapter 4 and relating them to the extant literature. The chapter further examines the hypotheses and espouses whether or not the outcomes of the test of hypothesis is in tandem or a departure from existing empirical studies in the literature.

5.2 DISCUSSION OF HYPOTHESES

5.2.1 Discussion with respect to Hypothesis 1.

Hypothesis 1: There is a positive significant relationship between EO of a firm and its Performance among SMEs in Lesotho.

$H0$: There is a positive significant relationship between EO of a firm and its performance among SMEs in Lesotho.

$H1$: There is a positive significant relationship between EO of a firm and its performance among SMEs in Lesotho.

Hypothesis 1 has 3 sub-hypothesis namely:

1. $\mathbf{H_{1b:}}$ Innovativeness is positively related with SMEs performance
   $H0_{\mathbf{b}}$: Innovativeness is not positively related with SMEs performance
2. $\mathbf{H_{1c:}}$ Proactiveness is positively related with SMEs performance
   $H0_{\mathbf{c}}$: Proactiveness is not positively related with SMEs performance
3. $\mathbf{H_{1d:}}$ Risk-taking is positively related with SMEs performance
   $H0_{\mathbf{d}}$: Risk-taking is not positively related with SMEs performance

The variables fulfilled the assumptions of normality, hence, to test the hypotheses Pearson's correlation coefficient was computed to examine the relation between the EO constructs and financial performance. The Pearson's correlation coefficient was reported in Table 4.9. By inspection, the association between Innovativeness, Proactiveness, Risk-taking and Financial Performance were r=0.1100(p-value >0.05), 0.2624(p-value < 0.05) and -0.0125(p-value >0.05) respectively. The results indicated that the hypothesis was not supported in the case of risk-taking activities. Hence while the null hypotheses were rejected for Innovativeness and Proactiveness, the researcher failed to reject the null hypothesis for risk-taking.

In order to authenticate the outcome of the analysis, the variables were subjected to further test using the multiple linear regression where the a priori expectation was that the regression coefficients (β) should be greater than the zero. The results of the regression analysis shows that for innovativeness, $\beta = 0.719$ indicating that additional increase in unit of Innovativeness results in 71.19% in financial performance, all other independent variables held constant. Also, for proactiveness, $\beta = 1.367$indicating that additional unit increase of proactiveness, results in 100.36% in the financial performance while for risk-taking, $\beta 3 = -0.129$ indicating that additional increase in risk-taking results in 12.9% decrease in financial performance .

The results are consistent with the research findings from a study by Al-Swidi and Al-Hosam (2012) which found that entrepreneurial orientation has a significant influence on organizational performance. The point of distinction is that entrepreneurial orientation in this study denotes a higher explanatory power of 28.7% compared to the study byAl-Swidi and Al-Hosam (2012) which found an explanatory power of 26%. The study results are in agreement with a study by Mahmood and Hanafi (2013) which found that entrepreneurial orientation has a significant relationship with business performance of women-owned SMEs in Malaysia. Similarly, the results concur with a study by Otieno, Bwisa and Kihoro (2012) which found that performance of Kenya's manufacturing firms operating under the East African Community regional integration are significantly influenced by entrepreneurial orientation, in terms of sales, profits and employment.

5.2.2 Discussion with Respect to Hypothesis 2.

H_2: The external environment will moderate the relationship between EO and performance with the effect that the relationship is more positive when the environment is dynamic than when it is static.

1. $H0$: The external environment will not moderate the relationship between EO and performance among SMEs in Lesotho
2. $H1$: The external environment will moderate the relationship between EO and performance among SMEs in Lesotho

The stepwise regression model was employed to establish the moderating role of environmental factors on the relationship between EO and financial performance among SMEs in Lesotho.The results in a Table 4.11 indicated that there a change the value of R^2

when the environmental factors variable was introduced into the model. The coefficient of determination increased from 13.39% to 24.35%. This suggest that there is some form of interaction/moderation.To establish the magnitude of the moderating effect, the multiplicative factor was used to generate an interactive term (EO*ENV) between EO and environmental factors.The output of the regression model indicated that the interaction term which explains the moderating effect of environmental factors on the relationship between EO and financial performance yields $\beta=0.083$(p-value < 0.05). This implies that the 1 unit increase in the moderating effect of environmental factor exerts positive significance influence on financial performance which increases at 8.3%.

This result is consistent with previous findings (e.g Subramaniam & Gopalakrishna, 2001; Jahanshahi, Zhang and Brem 2014). Lastly, our finding revealed that environmental turbulence moderate the relationship between organizational learning and SMes innovativeness. Specifically the result shows that for organizational learning to take place, both top management attitude toward learning and environmental turbulence will affect the way organizational learning takes place". Furthermore, it has been expected that under market turbulence, the value of learning orientation rise. This is due to the fact that it can deliver variety of ideas that widen the number of possible, valuable as well as profitable actions in organizational settings (Moorman & Miner, 1997)

5.3 SUMMARY OF THE HYPOTHESES

Table 5.1 highlights the summary of the test of hypothesis. By inspection, the results of the correlation analysis revealed that the hypothesis for Innovativeness and proactiveness were supported while that of risk-taking was not supported i.e risk taking has negative association with financial performance. The regression output reveals that EO has positive and significant effect on financial performance. Likewise, the environmental factors have moderating effect on the relationship between relationship between EO and financial performance.

Table 5.1: Summary of the Hypotheses Test.

Hypothesis		Pearson's correlation coefficient(r)	regression coefficients (β)	p-value for regression analysis	Supported or unsupported
H1	Entrepreneurial Orientation (EO) □□Financial Performance	-	.864	0.058	Supported
H1a	Innovativeness□□Financial Performance	0.1100	0.719	0.01	Supported
H1b	Proactiveness□□Financial Performance	0.2624	1.367	0.00	Supported
H1c	Risk-taking□□Financial Performance	-0.0125	-0.129	0.66	unsupported
H2	EO*ENV□□Financial Performance	-	0.083	0.001	Supported

5.4 CONCLUDING REMARKS

The outcome of the study is in tandem with the findings of Li, Huang & Tsai (2009), Filser & Eggers(2014), Arshard *et al.,* 2014 and Gupta (2015) who argued that EO and entrepreneurship could remarkably enhance business performance and growth .However, the result is a departure from the findings of Lonial & Cater (2015) who indicated EO may not certainly lead to higher organizational performance .Although the regression results indicated that EO exerts positive and significant effect on financial performance, the low explanatory power of the regression(R^2=0.1339 and Adj R^2=0.1111) indicated that the effect of EO on perceived financial performance is narrow. Therefore, together with relatively high EO activities of SMEs and low and stagnant financial performance it is difficult to say the impact of EO on positive side. Perhaps and most probably that could be explained by environment where economic activities is still at the budding phase. Moreover, SMEs in Lesotho were still willing to follow high EO activities in order to ease difficulties in the market.

CHAPTER 6: CONCLUSION AND RECOMMENDATIONS

6.1 INTRODUCTION

This focus of this research work is to contribute to the much needed literature in the context of entrepreneurship and business outcomes. The research findings contributed to the body of knowledge by assessing the predictors of financial performance in SMEs in Lesotho. In this chapter, a summary of the research findings is presented as the study examined the veracity of the link between entrepreneurial orientation and financial performance among SMEs. Furthermore, the study investigated the moderating role of environmental factors in the relationship between EO and financial performance. The results of this study are germane to the Lesotho economy as it identifies priority areas for policy intervention and areas for further research.

This chapter includes a summary of the interpretation of the results, and limitations to the research, future research, and recommendations.

6.2 RESEARCH RESULTS AT A GLANCE

The study hypothesised that a positive relationship exists between Innovativeness and financial performance; Proactiveness and financial performance; and between Risk-taking and financial performance (Hypotheses 1b-1d). A regression analyses supported the relationship of the variables. A multiple regression analytical tool was employed to predict this relationship.

The regression model yielded these results: The final regression model is given by:

Financial Performance = 34.049+ 0.71 Innovativeness + 1.367 Proactiveness - 0.129 Risk-taking + $\boldsymbol{\varepsilon}$**.**

Furthermore the outcome of the test showed that the VIF values were all less than 10, which indicates that there was no problem of multilinearity.

The empirical results of the study helps in drawing three important general conclusions. The results for Hypothesis 1a showed a positive relationship between **Innovativeness** and financial performance within the SMEs in Lesotho. The regression coefficient(β=0.71) was positive and significant (p-value < 0.05). Likewise, an examination of the of the relationship between between **Proactiveness** and financial performance showed that the regression coefficient was positive (β =**1.367)** and significant (p-value < 0.05). The results for Hypothesis1d also did not fail to reject the null hypothesis as the relationship between risk-taking and financial performance was negative (β =**- 0.129)** and not significant (p-value > 0.05).

Lastly, the results for Hypothesis 2 demonstrated that the external environment exerts moderating effect on the relationship between EO and performance among SMEs in Lesotho. The regression coefficient (β =0.083**)** for the interaction term EO*ENV was positive and significant (p-value < 0.05).

According to regression analysis, there is a significant relationship between entrepreneurial orientation and economic performance just as Dess, Lumpkin and McGee (1999), Zahra and Covin (1995), Wiklund and Shepherd (2004) proposed. According to Lumpkin and Dess (1996) EO is at the core of growth orientation. Consistent with the results of Lee and Pennings (2001), Wiklund (1999) and Covin,Green and Slevin (2006),EO has positive effect on sales growth rate (Green et al, 2008).

When the relationship between dimensions of EO and financial performance was examined, it was observed that both variables- proactiveness and innovativeness exert positive and significant effect on financial performance. It was observed that risk taking exerts negative influence on financial performance. But when the relationship between EO and financial performance was analysed, it is not significant (p-value =0.058) until the mediator variable (environmental factors) was introduced.

6.3 IMPLICATIONS OF THIS RESEARCH

It is extensively emphasised that embracing an appropriate entrepreneurial behavior fosters positive business outcomes. Therefore EO is pivotal to business outcomes and sustainability.By inspection, there is a marked variation in how dimesnions of EO exert influence on firm performance .A likely explanation for this development is that “ at different phases of development EO dimensions might have an unequal importance in fostering firm performance”(Lumpkin and Dess ,1996). Accordingly, “businesses need not necessarily adopt all of the EO dimensions and should not also assume that each adopted EO dimension will significantly enhance the performance of the business”(Lumpkin and Dess ,1996). Also, the findings from this study depict strong evidence that a business environment has a direct influence on the level of entrepreneurial behaviour exhibited by SMEs.

Furthermore, the study shows that risk-taking has negative effect on SME performance. Likely,the environmental factors negatively moderates the relationship (Zahra & Garvis, 2000).Thus, entrepreneurs in Lesotho need to be strategic risk takers and set threshold for risks and identify risk levels that could have inimical effect on business outcomes. Summarily, the research findings showed flexible entrepreneurial activities is useful to promote entrepreneurial activities and ultimately enhance firm performance.

6.4 LIMITATIONS OF THE STUDY

The researcher acknowledges certain precincts which are drawbacks to this study but can be ample avenues for subsequenct studies. First, this study is cross-sectional in nature and is inadequate to infer latent directions causality between between the constructs of interest. Second, the self-reported measures employed in obtaining data may lead to response bias(Miller ,2011) .Third, the difficulty in accessing archival data on SMEs in societies like Lesotho deters obtaining valuable information as several business activity are off-the-books.

Nevertheless, these limitations are crowded out by the methodological strengths in this study. Firstly, the SMEs employed in this study contributed to the body of knowledge on EO strategy and dynamics in small emerging economies (Eden, 2002;Schmidt, 2009). Secondly, the survey data was obtained from practitioners and “key informants about issues and outcomes that are of concern to them in their everyday work” achieving a sort of ‘mundane realism’ in our methodology” (Venkatraman, 1989;Slater and Atuahene-Gima, 2004). Thirdly, the hypothesis was tested in Lesotho a country that has taken advantage of the African Growth and Opportunity Act (AGOA) to become the largest exporter of garments to the US from sub-Saharan Africa (CIA WORLD FACTBOOK,2018). To the knowledge of the author, there are very few studies that examine EO–business outcomes relationship in the Lesotho context, which will aid in extending generalisability of SMEs research in emerging economies. Thus, the findings in this study are reliable and applicable to a wider context .

6.5 SUGGESTIONS FOR FURTHER RESEARCH

It is sacrosanct that forthcoming research works should explore the various dimensions of EO and their attendant effect on SMEs when conducting research in a small and emerging economy like Lesotho.

Subsequent studies could use structural equation modelling (SEM) to examine the causal pathways for several EO dimensions and environmental contingency variables. Also, time series and longitudinal data can help examine the trend of interactions among multi and complex variables that can help understand the dynamics of entrepreneurial behavior in Lesotho.

6.6 RECOMMENDATIONS

It is imperative for SMEs in Lesotho to ensure that their strategic milieu and posture resonates with the appropriate component of EO in order to lessen the deleterious impacts of risks and foster positive business outcomes .

Entrepreneurs in Lesotho should be strategic risk takers and thoughtfully scrutinise the trajectory of their risks taking process such that it will not erode profits and positive business outcomes .

SMEs should reinforce engdering EO internally in order to innovate incessantly and stem the tide the of entropic factors that can shape the business environment adversely .

Enterprises should network with insititutions, research bodies and external stakeholders to develop new frontiers , better experimental conditions, suggest risk-taking thresholds which will enhance business performance.

6.7 CONCLUSION

The subject of entrepreneurial orientation has attracted attention in the academic circles as scholars and professionals have make significant progress in exploring the dimensions EO and dynamics– performance link (Wales et al., 2013). The thrust of this research was to explore the link between EO and financial performance of SMEs in Lesotho and the moderating role environmental factors in influencing this relationship. According to De Clercq et al.(2013), EO can extert positive influence on business outcomes but there has been some recurring challenges particularly in emerging economies such as Lesotho . Countries such as Lesotho experience weak institutional support and the risk taking can be inimical to performance outcomes (Peng et al., 2008;Narayanan and Fahey, 2005). The findings in this study reveals that SMEs in Lesotho have benefited from their EO strategy.Furthermore, the findings from this study are invaluable to researchers who will need to further explore the component of environmental factors that exert substantial moderating effects on the EO-performance relationship. Practitioners will also benefit from this study as they should brainstorm the essential ingredients of their strategic posture and establish thresholds for risk-taking in the Lesotho context .

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APPENDICES

Appendix I: Demographic Questionnaire

Research Instrument

DEMOGRAPHIC INFORMATION

Background information: Please circle your response or fill-in the appropriate answer Blanks.

1. Categorize your Industry

- O Wholesale and retail
- O Manufacturing

2. What is your gender

- O Male
- O Female
- O Other

3. Formal Education Level

- O Less than High school
- O Certificate
- O Diploma
- O Bachelor Degree
- O Doctoral Degree

4. How long has your business been operating______________please specify

5. What are your annual net sales /Income?

- o Below R200, 000
- o R200, 001 – R1, 999,999
- o R2, 000,000 – R4, 999,999
- o R5, 000,000

6. How can you describe your business in the past 3 years?

- O Growing
- O Stable
- O Declining

Appendix II-Entreprenurial Orientation, Environmental Factors and Financial Performance Questionnaire

The following statements are meant to identify the collective management style of your business organisation's key decision makers. Please indicate which response most clearly matches the management style of your business (selecting 1 indicate a complete agreement with the statement, selecting a 7 indicates a complete disagreement with the statement and 4 indicates neutrality.

In general, entrepreneurs of my firm favour …….

	Strongly Agree			**Neutral**			**Strongly Disagree**
Risk -taking							
	1	**2**	**3**	**4**	**5**	**6**	**7**
2.1.1 Our firm takes low risk projects with normal certain rates of return							
2.1.2 My firm typically seeks to avoid competitive clashes, preferring a live and let live attitude							
2.1.3 Our firm has a cautious, wait and see attitude in order to minimise the probability of exploiting potential when faced with uncertainty							
Innovation							

2.2.1 Our firm emphases on R&D technological innovation							
2.2.2 How many new lines of products or services have your business marketed in the past 5 years							
i) No new lines of products or services							
ii) Many new lines of products or services							
Proactiveness							
2.3.1 Our company has the tendency of changing the product or service lines							
2.3.2 My firm regularly responds to actions which competitors initiates							
2.3.3 My firm is very rarely the first company to introduce new products or services, operating technologies and others							

Source: Covin and Slevin (1991)

Performance Scale

Please indicate the degree of importance that the firm attaches to the following criteria

	Unimportant 1	2	Neutral 3	4	Very important 5	6	7
1. Returns on Assets							
2. Return on Investment							
3. Return on Equity							
4. Cash flows							
5. Operating Profits							
6. Sales Volume/Turnover							
7. Sales Growth Rate							
8. Market Share							
9. Market Development							
10. New Product Development							

Source: Adapted from Gupta and Govindarajan (1984).

Satisfaction

The following regard to the satisfaction of with performance areas of your business

Please review each of the following and select a number between 1 and 7 that best represents your rating of satisfaction with:

	Highly Dissatisfied 1	2	3	4	5	**Extremely Satisfied** 6	7
1. Returns on Assets							
2. Return on Investment							
3. Return on Equity							
4. Cash flows							
5. Operating Profits							
6. Sales Volume/Turnover							
7. Sales Growth Rate							
8. Market Share							
9. Market Development							
10. New Product Development							

Source: Gupta and Govindarajan (1984)

Environmental Uncertainty

The following statements regard to the external environment affecting your firm. Please review each of the following statements and tick that approximates your response. (Selecting a 1 indicates that you strongly disagree with the statement, selecting a 7 indicates that you strongly agree with the statement, and selecting 4 indicate neutrality).

	Strongly Agree			**Neutral**			**Strongly Disagree**
	1	**2**	**3**	**4**	**5**	**6**	**7**
The external environment our firm operates in has level of risk and uncertainty	☐	☐	☐	☐	☐	☐	☐
The external environment poses serious threats to our firm's survival and well being	☐	☐	☐	☐	☐	☐	☐
Declining markets of products/ services area major challenge in our industry	☐	☐	☐	☐	☐	☐	☐
Tough price competition in a major challenge in our industry	☐	☐	☐	☐	☐	☐	☐
In our industry, demand and customer preferences are	☐	☐	☐	☐	☐	☐	☐

unpredictable							
Government inference is a major challenge in our industry	☐	☐	☐	☐	☐	☐	☐
Our firm much its marketing practices frequently	☐	☐	☐	☐	☐	☐	☐
Our business environment causes a great deal of threat to the survival of our firm	☐	☐	☐	☐	☐	☐	☐
The rate of product	☐	☐	☐	☐	☐	☐	☐
And service obsolesce in our business is high	☐	☐	☐	☐	☐	☐	☐
In our industry, actions of competitors are unpredictable	☐	☐	☐	☐	☐	☐	☐

Appendix III: Letter of Introduction

Dear Sir/Madam

My name is Sebueng Mamonono Phoofolo and I am a Master student in Management, Entrepreneurship and New Venture Creation at Wits University in Johannesburg. As part of my studies I had to undertake a research project, and I am investigating the impact of Entrepreneurial Orientation on Small, Medium Enterprise in Lesotho. The aim of this research project is to to ascertain the level of Entrepreneurial orientation in SMEs of Lesotho and assess its factors with firm's performance.

As part of this project I would like to invite you to take part in answering a questionnaire. It will take you approximately 7-10 minutes to complete the questionnaire.

You will not receive any direct benefits from participating in this study, and there are no disadvantages or penalties for not participating. You may withdraw at any time or not answer any question if you do not want to. The questionnaire will be completely confidential and anonymous as I will not be asking for your name or any identifying information, and the information you give to me will be held securely and not disclosed to anyone else.

If you have any questions afterwards about this research, feel free to contact on the details listed below. This study will be written up as a research report which will be available online through the University library website. If you wish to receive a summary of this report, I will be glad to send it to you upon request. If you have any queries, concerns or complaints regarding the ethical procedures of this study, you are welcomed to contact the University Human Research Ethics Committee (non-medical), telephone + 27(0)11 717 1408, email hrec-medical.researchoffice@wits.ac.za/ Shaun.Schoeman@wits.ac.za

Yours Sincerely

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Appendix IV: Consistency Matrix

Relationship between Entrepreneurial Orientation and business performance on SMEs					
Sub Problem	**Literature Review**	**Hypotheses**	**Source of data**	**Type of data**	**Analysis**
Apprehend the link between entrepreneurial Orientation and business performance of SMEs in Lesotho	Covin& Slevin,1991; Ferreira,Azevedo,Fernandez,2011; Fatoki ,2012;Arpa*et al.*, 2012;Mohutsiwa, 2012;Laukkanen,*et al.*,2013; Alarape,2013	**H1**: There is a positive relationship between EO and SME performance across national contexts	Survey data gathered using Covin and Slevin (1991) research instrument for Entrepreneurial Orientation Scale Using Likert Scale 1-7:	Ordinal	Multiple regression Analysis
Assess the impact of entrepreneurial Orientation dimensions on performance of Lesotho SMEs	Gupta & Govindarajan, 1984;Filser & Eggers,2014;Rasli, Arshad & Arshad 2013;Shehu&Mahmood, 2014; Hussain, Khan &Shah,2015; Murimbika,2012;	**H1a**:Innovativeness is positively related with SMEs performance	Survey data gathered using Gupta and Govindarajan (1984) research instrument .For the first section, respondents will be asked to indicate on a five point Likert type scale ranging from (1= little importance to 5= extremely important)	Ordinal Interval	Multiple regression Analysis
		H1b: Proactiveness is positively related with SMEs performance			
		H1c: Risk taking is positively related with SMEs performance.			
Understand the influence of external environmental factors on Lesotho SMEs'performance	Naman & Slevin (1993) ;Shirokova, Bogaty& Beliaeva ,2015 Khandwalla,1976/77; Sharapova, Bogaty& Beliaeva ,2015	**2**:The dynamism and hostility of the environment moderate the relationship between EO and performance, in such a way that the firm's EO will have more intense influence on growth when the firm moves in a dynamic and/or hostile environment	Survey data gathered using Naman and Slevin (1993) research instrument. The scale uses a seven point Likert-type scale (1=strongly disagree and 7=strongly agree).	Interval	Multiple regression Analysis