# MEDIATING EFFECT OF MARKETING COMMUNICATION IN THE RELATIONSHIP BETWEEN ENTREPRENEURIAL ORIENTATION AND MICRO-ENTERPRISE PERFORMANCE

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**Abstract**

*Performance of micro-enterprises has been linked to entrepreneurial orientation (EO). However, this cannot be viewed in a direct perspective as suggested in past studies because this direct link accounts for a small 5.8% of performance with 94.2% unaccounted for. Factors such as strategic flexibility, dominant logic, organizational culture and competitive advantage play a critical role in mediating this relationship yet marketing communication has not been considered in past studies. The study purpose was to examine mediating effect of marketing communication on the relationship between entrepreneurial orientation and firm performance using correlation design. The study was grounded on entrepreneurial orientation, marketing communication and contingency theories. The target population comprised 5700 registered micro-enterprises in Kericho County, Kenya. Proportionate stratified random sampling method was used to select 373 owner/managers. Data was collected using structured questionnaires. Baron and Kenney's regression was used to analyze data. The findings indicate marketing communication mediated the relationship between EO and performance partially leaving EO to explain only 3.0% change in performance. Using Baron and Kenny, Sobel, and Monte-Carlo simulation tests, the results confirmed partial mediation. The study concluded that marketing*

*communication mediated the relationship between EO and performance and recommended that the enterprises should enhance marketing communication strategies and improve EO to achieve better performance.*

**INTRODUCTION**

The informal sector has been identified by many governments worldwide to be key engine of economic growth and development through creation of employment, innovation, competitiveness and poverty alleviation (Kropp, Lindsay &Shoham, 2006). Kenya is in no doubt one of those nations that have embraced this sector as key to the provision of employment to youth and women, who form the bulk of the population (Republic of Kenya, 2013). The sector plays a vital role in the economic development of the nation by increasing competition, fostering innovation, besides generating employment.

There is evidence that the micro-enterprise sector provides growth in the economy. This growth has been steadily progressing form 67.5% (2010) to 83.4% (2014) (Republic of Kenya, 2014). This growth in the sector does not however reflect in the growth of the micro-enterprise largely due to their survival rates which, most of them fail to grow in to medium and large enterprises. This is largely attributed to financial constraints; social demands compete with business capital and managing employees (Tubey, 2010). At the same time, Ongolo and Awino (2013) point out that the sector contributes about 20% of the gross domestic product (GDP). The sector spreads across the 47 counties in Kenya contributing to the economy of every county including Kericho County.

Even though the sector is deemed instrumental in provision of economic growth and prosperity, such is not the case in Kericho County whose unemployment rate stood at 47% in 2009. Moreover 38% of the population is economically inactive and this figure rises as population grows (KICDP, 2013). The site provides a good platform for studying entrepreneurial orientation and firm performance to understand the dynamics of the county and to explain the disparity in county averages vis a vis nationwide averages. More so the site provides an important geographical space upon which the study will be conducted.

The purpose of this study is to examine the mediating effect of marketing communication in the relationship between entrepreneurial orientation and firm performance by testing hypothesis. Garcia &Lajara (2002) contend that there many unexplored areas in EO and micro-

enterprise performance; as such they suggest contingency approach to be adopted in this regard. Marketing communication is seen in this study as a mediator in this relationship based on previous arguments that marketing communication positively influences the firm performance.

Past studies have examined mediating factors such as such as strategic flexibility, dominant logic, organizational culture and competitive advantage this relationship yet marketing communication has not been considered as a possible mediator even though literature claims that marketing communication has a positive relationship with firm performance. In addition the empirical evidence on the methods employed in the various studies use structural equation modeling (SEM) to determine mediation however, the magnitude of this relationship seems to vary across studies consequently the present study seeks to examine mediation using Baron and Kenney's regression to address the gap.

## Statement of Problem

Entrepreneurial orientation has been seen to influence firm performance however, this cannot be viewed in a direct perspective as suggested in past studies because this direct link accounts for a small 5.8% of performance with 94.2% unaccounted for. Other organizational factors play a role in explaining these relationships such as strategic flexibility, dominant logic, organizational culture and competitive advantage. These factors mediate the relationship between entrepreneurial orientation and micro-enterprise performance however, marketing communication, has not been considered in past studies. By testing mediators it provides more accurate explanation of EO and firm performance relationship.

In light of the above, this empirical study extends the existing entrepreneurial orientation and firm performance literature by proposing a conceptual framework that considers marketing communication as a mediating variable in the relationship between the two constructs viz. entrepreneurial orientation and firm performance.

## Objective of study

To examine the mediating effect of marketing communication on the relationship between entrepreneurial orientation and firm performance of micro-enterprises in Kericho County, Kenya.

## Hypothesis of study

$H_0 1$: Marketing communication does not mediate the relationship between entrepreneurial orientation and performance of micro enterprises

## LITERATURE REVIEW

### Contingency Theory

Strategic management scholars are concerned with the relationship between key variables; organizational structures and processes and characteristics of the business environment and performance. In order to effectively model the EO and firm performance relationship the role of contingent variables need to be considered. Contingency theory suggests that the congruence or fit among key variables such as environment, structure or strategy is critical for obtaining optimal performance (Miller 1988). The entrepreneurship literature in referring to the causes of entrepreneurship often mentions such factors as managerial style, need for achievement and other social motivational factors such as decentralization of decision making, may influence performance of firms with entrepreneurial orientation. Covin&Slevin (1991) discussed the relationship of strategy, structure and environment to the EO dimensions of innovativeness, risk taking and proactiveness. Using these three dimensions, several researchers have verified the importance of viewing the EO and firm performance relationship in a contingency framework (e.g, Covin&Slevin 1991; Nauman& Slevin1999, 1988; Wiklund&Shephard, 2005).

Contingency theory is guided by the general orienting hypothesis that organizations whose internal features best match the demands of the environment. The term was coined by Lawrence &Lorsch (1967) who argued that the amount of uncertainty and rate of change in an environment impacts the development of internal features of an organization. Contingency theory holds that the relationship between two variables depends on the level of a third variable. Introducing mediators into bivariate relationships helps reduce the potential for misleading inferences and permits a more precise and specific understanding of contingency relationships (Rosenberg, 1968). Because of its concern with performance implications, contingency theory has been fundamental to furthering the development of the management sciences (Venkatraman, 1989). Contingency theory guides the study as it informs on the introduction of marketing communication as a mediator variable to allow for a more accurate and more precise understanding of the relationship between entrepreneurial orientation and firm performance.

Contingency theory allows for mediator variable which is presented in the study as marketing communication. This is guided by integrated marketing communication theory which suggest that the main goal of involving in marketing communication is to enhance customer relations. Therefore IMC is the result of aligning activities, procedures, messages, and goals in order to communicate with consistency and continuity within and across formal organizational boundaries.

Conceptually, a mediator is a construct that represents the generative mechanism through which the focal variable is able to influence the dependent variable of interest (Baron

and Kenny, 1986). A mediator analysis is then used to establish through what mechanism an independent variable exerts its influence on a dependent variable. In the context of entrepreneurial orientation (EO), Lumpkin &Dess (1996) suggest that there may also be mediators in the relationship between EO and firm performance and as such then, the EO and firm performance  direct relationship may be less meaningful. That it is through organisational activities that EO is made effective. Knowledge about these mediators informs the decision makers of the activities that are necessary to make EOs effective. This therefore is the theoretical model that grounds the study.

**Empirical review**

Research indicates that performance can be improved when key variables are correctly aligned (e.g., Naman&Slevin, 1993). This is the basic premise of contingency theory which suggests that congruence or "fit" among key variables such as industry conditions and organizational processes is critical for obtaining optimal performance (Lawrence &Lorsch, 1967).

Arief, Thoyib, Sudiro&Rohman (2013) informs that strategic flexibility mediates the relationship between EO and firm performance. This they determined in a survey conducted among 140 SMEs in  Malang. The study was analyzed by using Structural equation modeling and the results indicate that the significance of the direct effect of EO on firm performance is reduced when the indirect effect of EO through strategic flexibility is included in a total effect model. Consequently, EO is positively related to firm performance, and strategic flexibility partially mediates this relationship

Campos, Nuno de la Parra &Parellada (2012) investigated the influence of dominant logic (DL) on the EO and firm performance relationship. Survey design using self-reported data obtained from 149 single informants from several parts in Mexico were used. Data was analyzed using SEM and the study concluded that DL mediates EO-firm performance relationship.  Similarly Sehu&Mahmood (2014) examined the mediating effect of organizational culture on the relationship between entrepreneurial orientation and firm performance in Nigerian small and medium enterprises (SMEs). Based on the theoretical consideration, a model was proposed to examine this relationship. A quantitative survey method was employed, the data were collected from the owner/managers of SMEs in Kano – Nigeria. Partial least squares structural equation modeling (PLS) was used for the data analysis. Based on the statistical findings, entrepreneurial orientation and organizational culture were significantly related to firm performance. Organizational culture was found to partially mediate on the relationship between EO to firm performance.

Zainin, Hadiwidjojo, Rohman&Maskie (2014) determined the direct and indirect effects of entrepreneurship orientation on marketing performance via competitive advantage. This study also examined the strength of learning orientation in this relationship using structural equation modeling (SEM) to test the relationship. The study was conducted in small medium enterprises (SMEs) export in Great Malang Territory Indonesia. Result show that there was effect of entrepreneurship orientation on the performance of marketing. Competitive advantage has complete mediation effect, but it was not followed by learning orientation; non mediation because there was no significant affect between this variable on marketing performance.

The relevance of EO mediation was underscored by a meta-analysis on the mediators of EO and firm performance relationship (Harms, 2014). Organizational factors have been suggested to mediate this relationship. Such factors as strategic flexibility (Arief, Thoyib, Sudiro&Rohman, 2015) dominant logic (Campos, Nuno de la Parra &Parellada, 2012), organizational culture (Sehu&Mahmood, 2014) and competitive advantage ( Zainin, Hadiwidjojo, Rohman&Maskie, 2014). However different mediation degrees have been established; Strategic flexibility, dominant logic, and organizational culture partially mediate this relationship. None the less competitive advantage has complete mediating effect on entrepreneurial orientation and firm performance.

Although past studies have examined these mediating relationships, marketing communication has not been considered as a possible mediator even though literature claim that marketing communication has a positive relationship with firm performance. In addition the empirical evidence on the methods employed in the various studies use SEM to determine mediation however, the magnitude of this relationship seems to vary across studies consequently the present study seeks to examine mediation using Baron and Keney's regression to address the gap.

## RESEARCH METHODOLOGY

### Research Design

The research work adopted correlational design. Correlational studies display the relationships among variables by such techniques as cross-tabulation and correlations (Simon, 2011). The main purpose of a correlational study is to determine relationships between variables, and if a relationship exists, to determine a regression equation that could be used make predictions to a population.

The study was conducted in the six sub-counties of Kericho County with target population of study comprised a total of 5700 owner/managers of the micro-enterprises in Kericho County. These micro-enterprises are those registered at the County Revenue Office

during 2013/2014 financial year. Specifically those micro- enterprises that employ 1-10 persons (Kericho County Revenue Office, 2015).

## The Data

The study employed both primary and secondary data. Primary data was obtained directly from respondents using structured questionnaires. It involved creating new data collected from an existing source (Kothari, 2004). The respondents were the owner/managers of micro-enterprises in Kericho County. Primary data obtained from field survey was used to draw conclusions on the objectives of the study. Secondary data was obtained from published reports from government and other relevant agencies which enable comparisons, affirmations and contradictions in the study during interpretation. A structured survey questionnaire was used to collect data from the owner/managers of Micro-enterprises in Kericho County. The questions on firm performance are adapted from Zulkiffli, &Perera, (2011) and marketing communication construct questions have been adapted from Schultz & Kitchen (1997) and Eagle & Kitchen (2000).
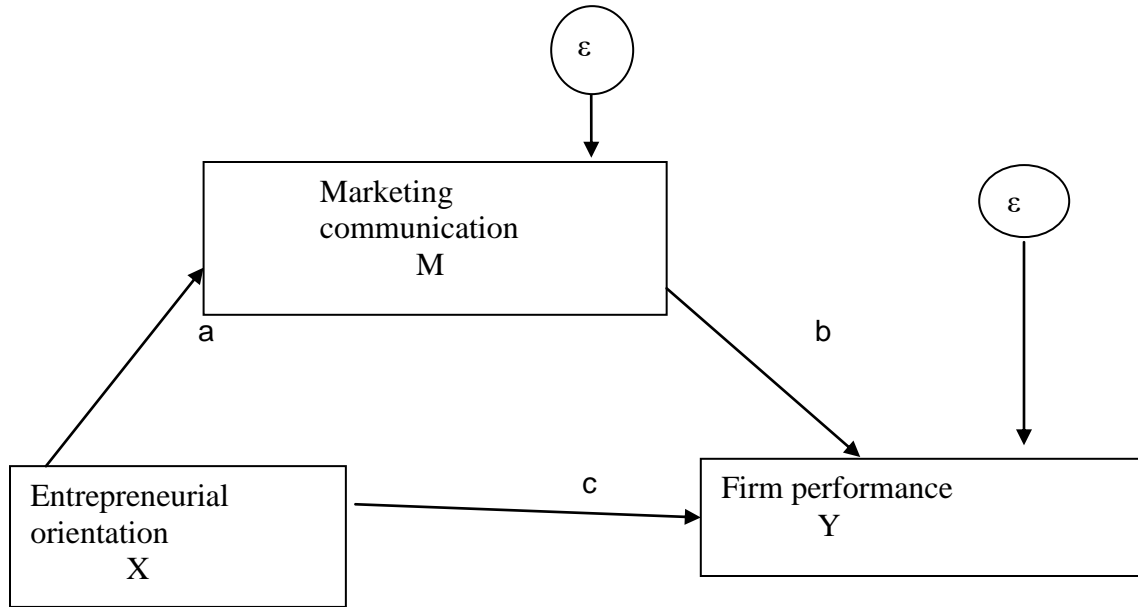
## Analytical Approach

Baron and Kenny's regression was applied to test the mediating effect of marketing communication on the relationship between entrepreneurial orientation and firm performance. Baron and Kenya (1986) proposed a four step approach in which several regression analyses are conducted and significance of the coefficients is examined at each step. However, before carrying out these analytic tools, several assumption for regression model are tested to ensure that data is up to standards to reflect what is needed in the study.

## The Mediation Model

The mediation model seeks to discover and explicate the underlying mechanism of an observed relationship existing between the dependent (Entrepreneurial Orientation) and an independent variable (firm performance) through including a mediator variable (marketing communication). The primary hypothesis of interest in a mediation analysis is to see whether the effect of the independent variable on the outcome can be mediated by a change in the mediating variable. Primary hypothesis is tested; if we accept the null hypothesis then full mediation.  If we reject the null hypothesis then partial mediation was achieved. Inference of the direct and indirect and total effects was performed using Bootstrap method.

Figure 1. Mediation model for testing mediation adapted from Zhao, Lynch & Chen, (2010)



The mediation model is given by:

Direct effect c with X predicting Y

Indirect effect= ab

Total effect= ab+ c

Regression equations:

Simple regression was used to analyse objectives 1, 2 and 3. Multiple regression was used to analyse data on specific objective four which determines mediation. The equations for the regression equations are as below:

Simple regression analysis with X predicting Y (path c)

$$Y = \beta_0 + \beta_1 X + \varepsilon \quad\quad (3.2)$$

X predicting M (path a)

$$M = \beta_0 + \beta_1 X + \varepsilon \quad\quad (3.3)$$

M predicting Y (path b)

$$Y = \beta_0 + \beta_1 M + \varepsilon \quad\quad (3.4)$$

Multiple regression X and M predicting Y ( path c′)

$$Y = \beta_0 + \beta_1 X + \beta_2 M + \varepsilon_3 \quad\quad (3.5)$$

Where: Y - Firm performance (Dependent variable)

M - Marketing communication (Mediator variable)

X – Entrepreneurial Orientation (Independent variable)

$\varepsilon$. error term

## RESULTS AND DISCUSSION

### Response Return Rate

The questionnaire was administered to 373 respondents; however, not all the respondents gave their feedback. More so, some of those who responded had their questionnaires dropped during data cleaning as described in chapter three. Out of the 373 respondents under the proposed sample size, only 355 respondents were considered for data analysis. Giving a response return rate of 95.17%, that is considered adequate. This sample size is also fit for regression analysis since it incurred very minimal errors leading to the generalization of the findings.

### Characteristics of Micro-and Small Enterprises Firms

To establish the firm characteristics, respondents were asked to share their knowledge on the type of enterprise, location of enterprise, who runs the enterprise, and period of operation of the enterprise. The findings are presented as shown in table 1.

Table 1. Characteristics of Micro-Enterprises in Kericho County

| Characteristics | Category | F | % |
| --- | --- | --- | --- |
| **Type of enterprise** | single owner | 252 | 71.0 |
| | Partnership | 85 | 23.9 |
| | limited company | 18 | 5.1 |
| | **Total** | **355** | **100.0** |
| **location of enterprise** | rural area | 90 | 25.4 |
| | peri-urban area | 212 | 59.7 |
| | urban area | 53 | 14.9 |
| | **Total** | **355** | **100.0** |
| **Duration of operation** | 0-3 years | 115 | 32.4 |
| | 3-5 years | 124 | 34.9 |
| | 5-7 years | 73 | 20.6 |
| | **Total** | **355** | **100.0** |
| **Who runs enterprise** | Self | 113 | 31.8 |
| | self & family | 95 | 26.8 |
| | family members | 21 | 5.9 |
| | self & employees | 126 | 35.5 |
| | **Total** | **355** | **100.0** |

From table 1 findings, it is clear that majority of the enterprises 252(71.0%) are single owner, 85(23.9%) are partnership, and 18(5.1%) are limited company enterprises. Concerning their

location, majority of them 212(59.7% are located peri-urban area, 90 (25.4%) are in rural areas and 53(14.9%) are in urban areas. This is a clear picture of the location of most of the micro-finance enterprises in Kericho County, Kenya. It was also clear from the findings that majority of the enterprises 124(34.9%) have been operating for a period of 3-5 years, 115 (32.4%) have been operating for a period of 0-3 years and 73(20.6%) have operated for a period of 5-7 years. This means that the average duration of most of these enterprises is approximately 3-5 years. Finally, it emerged that majority of the enterprises 126(35.5%) are operated by self and employees, 113(31.8%) are operated by individuals, 95(26.8% self and family and 21(5.9) are run by family members. This was the required representation of micro-enterprises satisfactory for the current study and thus the data obtained was considered valuable.

## Mediating Effect of MC on EO and Performance of micro-enterprises

The main objective of the study was to investigate the mediating effect of marketing communication on the relationship between entrepreneurial orientation and firm performance of micro-enterprises in Kericho County. To determine whether there was statistical significant mediating effect of MC on the relationship between EO and organization performance, the study had to prove that organization performance is a function of multiple factors (MC and EO). Specifically, hierarchical multiple regression analysis was conducted to test mediation, that is, the effect between EO on micro-enterprises performance via MC, and whether or not such an effect was significant in predicting the organization performance of MEs. The first step was to establish the combined effect of both MC and EO on performance of micro-enterprises in Kericho County. Finally, the study reported the variance in the change of performance accounted for by EO when MC was added in the model. The findings for the model coefficients are presented as shown in table 2.

Table 2. Effect of MC and EO on Performance of micro-enterprises in Kericho County

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 1.333 | .356 | | 3.742 | .000 |
| | overall entrepreneurial orientation | .627 | .093 | .338 | 6.741 | .000 |
| 2 | (Constant) | 1.248 | .352 | | 3.549 | .000 |
| | overall entrepreneurial orientation | .518 | .097 | .279 | 5.359 | .000 |
| | overall marketing communications | .183 | .052 | .183 | 3.512 | .001 |
| a. Dependent Variable: overall performance | | | | | | |

From the coefficients Table 2, it was evident that optimum level of organization performance of micro-enterprises is different from model 2. The new optimum level of organization performance MEs is as reported in the stated model: Y= 2.967 +0.518X +0.183M +ε .Thus, when the value of X is zero, organizational performance is 2.967. This means that when the organization does not experience entrepreneurial orientation, unobserved factors may lead an increased or reduced performance among micro-enterprises.  In order to understand the mediation of marketing communication on the relationship between EO and performance of micro-enterprises, the beta value (unique contribution) of entrepreneurial  orientation was 0.338 which was significant at 0.01 (p=.000). However, upon introducing marketing communication in the model, the effect of entrepreneurial orientation reduces to a value of 0.279, though it is still significant. The unique contribution of marketing communication on performance of Micro-enterprises was 0.183, which is significant at 0.01 as EO. This indicates the aspect of partial mediation since the direct effect of mediator construct (MC) has a significant unique influence on performance despite the fact that path c (direct effect of Eos on performance) is significant. Thus there is an aspect of mediation.

In order to fully understand the mediating effect of marketing communication on this relationship, a summary model is presented as shown in table 3.

Table 3. Summary Model on the Mediation

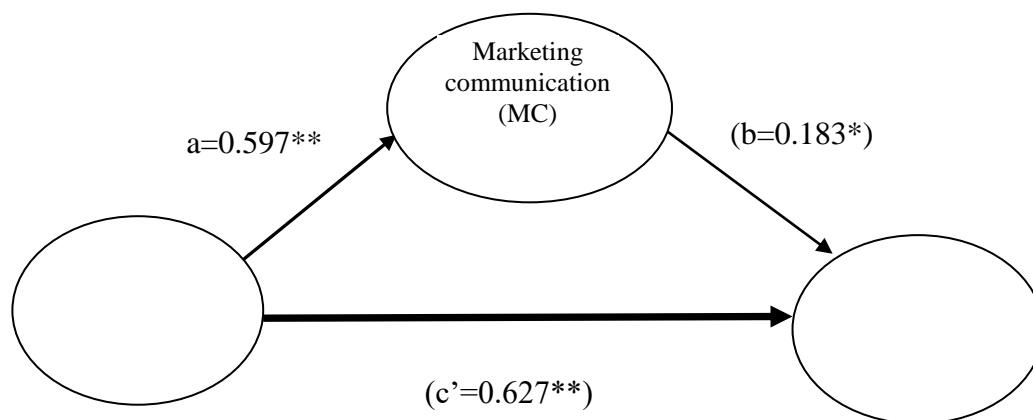| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | R Square Change | F Change | df1 | df2 | Sig. F Change |
| 1 | .338[a] | .114 | .112 | .97406 | .114 | 45.435 | 1 | 353 | .000 |
| 2 | .380[b] | .144 | .139 | .95879 | .030 | 12.335 | 1 | 352 | .001 |

a. Predictors: (Constant), overall entrepreneurial orientation

b. Predictors: (Constant), overall entrepreneurial orientation, overall marketing communications

The findings as indicated in table 3 indicate that entrepreneurial orientation and marketing communication explained a significant variance in performance of micro-enterprises (R square=0,144, p=.001). This value is obtained after square the coefficient of determination value of 0.380 that indicates the multiple relationships between a combined MC and EO. However, this is not the main case in this study. Marketing communication was found to explain a significant variance in performance of these enterprises (R-square=0.114) which is 11.4% when multiplied by 100%, implying that other percentage is explained by other variables not tested in the present model.

When entrepreneurial orientation is introduced in the model, it explained 13.9% change in performance of the micro-enterprises (R-square =0.139) thus leaving entrepreneurial orientation to explain only 0.30% change in performance of the firms. This means that marketing communication has a mediating effect on the relationship between EO and performance of micro-enterprises and the mediating percentage is 13.9%. However, since the direct variance explained by EO remains significant even after the introduction of MC in the model, with slight reduction, the mediation can be termed as partial, thus leading to a partially mediated relationship. It can thus be concluded that marketing communication mediates the relationship between entrepreneurial orientation and performance of leading to drop of null hypothesis and adoption of this alternative hypothesis.

These findings are in line with those of Arief, Thoyib, Sudiro and Rohman (2013) who informs that strategic flexibility mediates the relationship between EO and firm performance. The findings are also supported by Campos, Nuno de la Parra &Parellada (2012) investigations on the influence of dominant logic (DL) on the EO and firm performance relationship. Based on the statistical findings, the findings revealed that entrepreneurial orientation and organizational culture were significantly related to firm performance. Organizational culture was found to partially mediate on the relationship between EO to firm performance. These studies and others, though on different scope and variables supports the present findings leading to the conclusion that MC mediates the relationship between EO and performance of MEs.

Figure 2. Path coefficients for EO,MC and performance mediation analysis



Marketing communication (MC)

a=0.597**

(b=0.183*)

(c'=0.627**)

*p< .05, **p< .01, all two-tailed.*

In the figure 2, the thickness of the arrow shows the strength of the relationship, a = regression weight on X when predicting M, b and c' are the regression weights on M and X, respectively, when both are used together to predict Y, c = regression weight on X when predicting Y.

In this case, c is the unstandardized regression weight of 0.627 -entrepreneurial orientation (X) on performance of small and micro-entrepreneurial enterprises (Y) while c' is the unstandardized regression weight of 0.518 for EO (X) in predicting Y (performance) when controlling for M (marketing communication). The mediation effect was therefore measured as the reduction in the regression weight for X on Y when M was included: **c- c'** = (0.627) – (0.518) = 0.109. Equivalently (within rounding error), the mediation effect can be calculated as the product of the indirect paths from X to Y through M: (0.627) * (0.183) = 0.115 when rounded off to 3 decimal places. Based on baron and Kenyy (1986), step four is not satisfied and therefore we have partial mediation.

In order to test to mediation, the study examined the product of the, *b* coefficients for the mediated path. The null hypothesis in this case was $H_0$: ab=0. Therefore, an estimate for the standard error of this ab product was then computed to find the z statistic. Sobel (1982) approximation formula was therefore used. The value of ab was 0.0864, the Sobel test in the output from the indirect procedure provided for a z value of 0.153 .Based on bootstrapping, the Indirect procedure also provides a 99% CI for the value of the indirect effect *ab*(again, this is in terms of unstandardized coefficients). The lower limit of this CI is .0207; the upper limit is .2057. Because this CI does not include zero, the null hypothesis that *ab*= 0 can be rejected. This corresponds to the findings for Baron and Kennys analysis of mediation.

## CONCLUSION AND RECOMMENDATIONS

The study sought to investigate the mediating effect of marketing communication on the relationship between entrepreneurial orientation and firm performance of micro-enterprises in Kericho County. The overall finding of the study was that MC mediates the relationship between entrepreneurial orientation and firm performance. It is therefore concluded that MC lowers the relationship between orientation and firm performance of micro-enterprises in Kericho County.

The results of the present study has some practical implications; it will assist owner/managers with EO will be able to make adequate decisions as regards to the important role of marketing communication toward firm performance. Marketing communication can help the owner/managers achieve desired performance.

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