

# ASSESSING THE INFLUENCE OF ENTREPRENEURIAL ORIENTATION ON SMALL AND MEDIUM ENTERPRISES' PERFORMANCE

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## ABSTRACT

*This study set out to assessing the influence of entrepreneurial orientation and SMEs' performance. A descriptive research design was adopted to gather information from registered SMEs as captured by Corporate Affairs Commission in Nigeria. The data gathered were sourced via the administration of structured questionnaire to 436 owner-managers of SMEs. The study employed the use of structural equation modelling of AMOS 22 to test the hypothesis. The results from statistical analysis indicates a significant impact from all dimensions of entrepreneurial orientation, such as business opportunity, inclusive innovation, dynamic operations, value adding activity, risk taking and innovative decisions have significant influence on SMEs performance.*

**Keywords:** Entrepreneurial Orientation, SMEs' Performance, SMEs, Strategic Management, Strategic Orientation.

## INTRODUCTION

Entrepreneurial orientation is a company's ability to take on somewhat risky objectives in the context of decision-making styles, processes, practices and rules of innovation improvement, proactivity and propensity for risk-taking (Patel & D'Souza, 2009; Fauzul et al., 2010). The global business environment is often highly competitive and therefore, companies must be proactive and also be able to compete in foreign markets. Thus, researchers have argued about entrepreneurial orientation as a strategic means of enhancing SMEs' performance (Morgan et al., 2006; Bakar and Ahmad, 2010). Dixon (2012) proved that entrepreneurial orientation has a positive effect on operational efficiency of SMEs in South Africa. Also, a study conducted by Beck (2015) revealed that entrepreneur's orientations such as pro-activeness, innovativeness and risk-taking are pertinent to the performance of SMEs in Bangladesh. Despite these facts, the rate of SMEs' failure in Nigeria remains alarming and disturbing, especially bearing in mind the role of SMEs' in sustaining highly competitive economies (Abiodun and Ibidunni, 2014). The limited capacity of managers to be innovative, proactive and futuristic has been identified as some of the reasons for this declining performance of SMEs. Consequently, it has become pertinent to assess the role of entrepreneurial orientation of the performance of SMEs in a developing economy, such as Nigeria. Ibeh and Young (2001) and Fauzul, et al. (2010) suggested that entrepreneurial orientation in the business context is interpreted as the company's willingness

to act proactively and seek international business opportunities with innovative products, services and processes, regardless of the risks they imply. Therefore, this research is focused on assessing the influence entrepreneurial orientation of Small and Medium Enterprises' (SMEs) performance in Nigeria.

## LITERATURE REVIEW

### Entrepreneurial Orientation (EO)

Entrepreneurial orientation is an organization's strategic orientation that refers to detailed entrepreneurial aspects of policymaking styles, approaches and practices; it sums up the features of an entrepreneurial firm (Dike, 2008). Fasua (2006) stated that an entrepreneurial firm is one that is involved in innovation, undertakes risky ventures and is first to come up with proactive steps, beating competitors to it. Based on this, several researchers have agreed that EO is a combination of the three dimensions: Innovative, proactive and risk-taking activities. Therefore, EO involves a readiness to introduce new market offerings, involve risky undertakings; to try out new and uncertain products, services, and markets and be more proactive than competitors toward new marketplace opportunities (Oboh, 2004; Adeyemi and Aremu, 2011). The innovative aspect of EO is a firm's inclination towards engaging in and support new ideas, novelty, experimentation and creative process that are a departure from known practices and methods (Akinlabi, 2008). A high rate of innovation helps a firm to pursue new opportunities. Proactiveness refers to anticipating and acting on imminent change in terms of customers' wants and needs thus creating a first-mover advantage vis-à-vis competition (Chukwuemeka, 2006). Northouse (2009) stated that proactive firms have the desire to be pioneers, thereby taking advantage of emerging opportunities. EO also involves risk taking which is the willingness for a business owner to commit more resources to projects where the failure of such projects may be higher than the success (Miller and Friesen, 2010). In some instances, according to Lickona (2012) risk taking also implies committing resources to projects where the outcomes are unknown. This basically reflects that the company is disposed to disrupt the tried-and-true methods and venture into the unknown. Entrepreneurial orientation has progressed since it was proposed by Miller in 1983; it has developed from three concepts; innovativeness, risk taking and proactiveness to include autonomy (Peng, 2003). Autonomy was added by Rahman (2010) because he believed that the three unique dimensions of entrepreneurial orientation are not separate autonomous constructs, but are consequential depending on the internal and external context of the firm.

### Entrepreneurial Orientation and Performance

Entrepreneurial orientation is not negotiable for SMEs that want to prosper in competitive business environment. SMEs must cultivate entrepreneurial orientation to increase their performance result from their innovation, proactiveness and risk taking which consists of the generation of a new ideas and its application in the form of development of new products or process of service, which will eventually lead to growth in the market share of an organisation, and creation of pure profit for the innovative enterprise (Schumpeter, 2011; Tang, 2008). To be successful, SMEs will have to take on riskier projects, even if it means doing away with the methods or products that have worked for other businesses (Oyedijo, 2015). The idea of entrepreneurial orientation as a stimulant of SMEs' performance involves a combination of three aspects; innovativeness which is concerned with supporting and encouraging new ideas, experimentation and creativity likely to result in

new products, services or processes (Miller and Friesen, 2010; Ibidunni et al., 2017). Risk taking has to do with measuring the extent to which individuals differ in their willingness and ability to take risk (Lumpkin and Dess, 2014), pro-activeness means being first initiator and other actions directed to the quest to secure and protect market share (McCann, 2011). Increased and continuous product innovation is of significance in today's highly competitive environment. The entrepreneurial orientation aspect of innovativeness studies a company's capability to engage in, and support, new ideas, novelties, experimentation and creative processes that may result in new products, services or technological processes (Ojukwu, 2013). According to Adamu (2014) inventions and new ideas should be encouraged even when their gains are not directly known, because if the new idea becomes successful, it will lead to high market share, profits and project the company to greater levels. Innovation demands that firms do away with current technologies and practices and take on new ways of doing things (Osabuohien and Efobi, 2012).

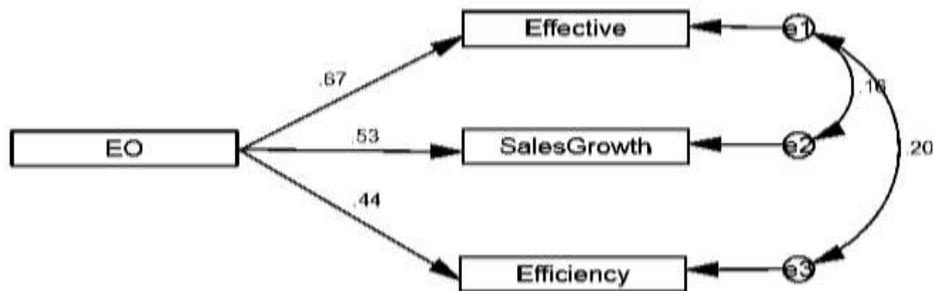
A firm's inclination to recognize and take up new opportunities is known as proactiveness (Okafor, 2015). A proactive firm monitors closely trends, identify the future needs of existing customers and anticipate changes in demand or potential problems that could lead to new venture opportunities. Kolombo et al. (2011) saw pro-activeness as a direction giving activity to the events by predicting and ascertaining the future needs, expectations and changes of customers instead of waiting for the needs to arise before taking action. The concept of risk-taking in business is the willingness to take planned risks (Kerr and McDougall, 2009). Firms take risks for higher market share and better profits returns and such risks include accruing high debt, committing large amounts of resources, introducing entirely new products into new markets and investing in unfamiliar technologies (Dess and Lumpkin, 2014). Risk-taking, by its very nature, is loaded with vulnerabilities and uncertainties, it is advised that firms should be vigilant so that risk can give a firm competitive advantage and higher market share. Consequently this paper hypothesises that:  
H<sub>1</sub>: Entrepreneurial orientation will influence SMEs' performance such as organizational effectiveness, sales growth and operational efficiency

## METHODOLOGY

A descriptive research design was adopted to gather information from registered SMEs as captured by Corporate Affairs Commission (2016) covering the South-West states in Nigeria, that is from Lagos State, Ogun State, Oyo State, Ondo State, Osun State and Ekiti State making a total of 10,000 registered SMEs. The descriptive research design was adopted because the research study simply attempts to describe the relationships among the variables included in the research (Jong and van der Voordt, 2002). The study population however, also consisted of owner-managers of SMEs that are members of National Association of Small Scale Industrialists (NASSI) as the questionnaires were administered during the meetings of this association. The data gathered were sourced *via* the administration of structured questionnaire to 500 based on the sample size determination technique by Krejcie and Morgan (1970). The items in the research instrument were adapted from existing works which included studies from Lumpkin and Dess (2014), McCann (2011) and Schumpeter (2011). The content validity was ensured in this study because the items contained in the instrument were derived from existing literature. Furthermore, experts in field of the study reviewed the measuring instrument, recommendations from experts were processed after making necessary corrections, thereafter and the final version of the instrument was used. A total of 436 copies of questionnaires representing about 72.3% were retrieved. The study employed the use of structural equation modelling to establish the relationship between

entrepreneurial orientation and SMEs’ performance. This was used to assess the influence of entrepreneurial orientation on SMEs’ performance in Nigeria.

**ANALYSIS AND FINDINGS**



**Figure1**  
**REGRESSION PATH ANALYSIS OF ENTREPRENEURIAL ORIENTATION AND SMEs’ PERFORMANCE**

Figure 1 shows the regression path analysis of multivariate relationships between entrepreneurial orientation and dimensions of SMEs’ performance, namely: organizational effectiveness, sales growth and efficiency. The path analysis reveal that there is a significant path between entrepreneurial orientation and SMEs’ performance, such as effectiveness (r=0.67), sales growth (r=0.53) and efficiency (r=0.44).

Table 1						
REGRESSION WEIGHTS OF ENTREPRENEURIAL ORIENTATION AND SMEs’ PERFORMANCE						
Variables		Estimate	S.E.	C.R.	P	Decision
Effective	<--- EO	0.728	0.039	18.690	***	Accept $H_1$
Sales Growth	<--- EO	0.566	0.043	13.137	***	Accept $H_1$
Efficiency	<--- EO	0.370	0.036	10.243	***	Accept $H_1$

The results in Table 1 show the structural regression weights of the multivariate analysis of entrepreneurial orientation and SMEs’ performance. The result indicate that a significant positive relationship exists between entrepreneurial orientation and organizational effectiveness (R=0.728, p<0.001); sales growth (R=0.566, p<0.001); and operational efficiency (R=0.370, p<0.001). The model fit of the analysis is assured by the following indicators Chi-square/Degree of Freedom ( $C_{min}/df$ )=2.631, Incremental Fit Index (IFI)=0.997, Normed Fit Index (NFI)=0.995, Comparative Fit Index (CFI)=0.997, Root Mean Square Error of Approximation (RMSEA)=0.061. The values are significant based on the arguments presented in established studies (Byrne, 2003).

**DISCUSSION**

This study was focused on assessing the influence of entrepreneurial orientation on SMEs performance. The results from statistical analysis indicate a significant influence from entrepreneurial orientation on SMEs performance. The research is significant to SMEs in developing economies because it demonstrates the fact that SMEs which continually identify and explore business opportunities and innovatively take decisions that reflect a proactive

nature of the firm perform significantly better in their product-market domain (Semrau et al., 2016; Olokundun et al., 2017). The study suggests that SMEs should design their operations to be dynamic and value-adding in order to maintain relevance before stakeholders and more established competitors. This study's ability to highlight these issues as components of entrepreneurial orientation is beneficial to SMEs, especially in the age of globalization and increasing competitions in the business economy. This finding is consistent with existing studies, such as Palmera et al. (2017), which suggest that innovativeness is a significant determinant of the performance of SMEs in Central Europe.

### **IMPLICATIONS FOR THEORY AND PRACTICE**

This study provides SME owners and managers with practical insight about the influence of entrepreneurial orientation as a strategy to achieving higher levels of firm performance. SME operators must be innovative and engage proactive measures to sustaining their firms' performance especially with respect to sales growth, effectiveness and efficiency. More so, this research provides researchers with a theoretical framework that will deepen the appreciation of entrepreneurial orientation, especially as it relates to developing economies like Nigeria. However, further research is required especially with respect to the role of entrepreneurial orientation of financial performance of firms in developing economies.

### **RECOMMENDATION AND CONCLUSION**

This study examined the relationship between entrepreneurial orientation and the performance of selected Small and Medium Enterprises (SMEs) in South-West, Nigeria. Based on the findings from the statistical analysis, the study concludes that entrepreneurial orientation significantly relates with various performance measures of SMEs, such as effectiveness, sales growth and operational efficiency. Consequently, it is recommended that entrepreneurial orientation should be treated as a strategic part of SMEs internal capability. As such, owners/managers of SMEs, especially in Nigeria and similar developing economies, should adopt operational patterns that ensure inclusive innovation, dynamic operations and value adding activities, risk-taking and innovative decision in their firms.

### **ACKNOWLEDGEMENTS**

Authors of this research work express sincere appreciation to the Management of Covenant University for giving full sponsorship to the publication of this research work in this journal.

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