

Entrepreneurial Orientation and Small and Medium Enterprises (SMES) Performance in Lagos State, Nigeria

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Abstract: The main objective of every entrepreneur in any given economy is to improve the performance of the business. However, to achieve this goal require the combination of many business resources that work together. Some resources are tangible, while others are intangible resources needed by an organisation to improve performance if effectively deployed. This paper studied the impact of Entrepreneurial Orientation (EO) on the organisational performance of Small and Medium-Sized Enterprises (SMEs) in Lagos State, Nigeria, as well as the role of Market Orientation (MO) as a moderator on the relationship between Entrepreneurial Orientation and organisational performance. The study employed survey research design with the use of structured questionnaire. A simple random sampling technique was adopted, and 448 questionnaires were retrieved and analyzed from 520 administered questionnaires among SMEs in Lagos State, Nigeria. The results of the analysis revealed that the combination of five major drivers of EO (Innovativeness, Proactiveness, Risk-Taking, Autonomy and Competitive Aggressiveness) have significant impact on SMEs innovation in Lagos State, with an R^2 of 0.986 and a Sig. 0.000. The study also revealed the moderating role of MO on the interaction between EO and SMEs performance to be significant at adjusted R^2 of 0.981, Sig. 0.000. The study recommended that Managers/Owners of SMEs should adopt all the five major drivers of EO in their business decision-making process. Also consider the need for the creation of marketing department or dedicated employee to take the marketing role, to drive competitive advantage, through innovation.

Keywords: Entrepreneurial orientation; Intangible resources; SMEs; Business performance

JEL Classification: L26

1. Introduction

The positive impact of entrepreneurship on economic growth and its ability to generate wealth, create products and services, technological and organisational knowledge, and create new jobs is widely acknowledged by scholars such as Adams, Bodas, and Fontana, (2019); Shu, De-Clercq, Zhou, and Liu, (2019) around the world, this has promoted their interest in the performance of Small and Medium-sized Enterprises (SMEs) over time. However, in Nigeria, these firms have experience performance characterised by low market share, poor sales growth, low innovation capability and

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low profitability (Olubiyi, Egwakhe, Amos & Ajayi. 2019), as a result of these factors, they are less competitive in the global business environment.

Olubiyi et al. (2019) and Adegbuyi et al. (2018) attributed SMEs' poor performance in Nigeria and why they are less competitive to global market to a lack of proactivity, autonomy, business opportunity, inclusive innovation, dynamic operations, value-adding activity, risk-taking, innovative decisions, competitive aggressiveness, high operating costs, poor marketing, government policy and lack of capability of the owners/managers to be futuristic in their operational processes, rules and policies. However, researchers in the field of management have debated entrepreneurial orientation compressively, and defined it as the strategy-making processes and styles of firms that engage in entrepreneurial activities (Peterson 2019), as a tactical way of improving the performance of SMEs.

The market is essentially the end result of a process known as marketing. Marketing is done by business owners in order to acquire a market in a particular sector, and the market in question is the buyer, both actual and potential customers needed by organisation to increase market share. Market orientation is an important contributing factor in business performances, is basically a concept of business that base on the focus of customer and the market, securing and maintaining market leadership of a sector (Best, 2009), and to provide customer value while making a profit a (Kotler & Keller, 2007), and improve performance

Hsiung and Tsai (2017) in their view described entrepreneurial orientation as a strategic component available and needed for improving the performance of SMEs. Masa"deh, Al-Henzab, Tarhini and Obeidat, (2018) revealed that entrepreneurial orientation are key and has a positive impact on the performance of SMEs considering the five EO dimensions of (innovativeness, proactiveness, risk-taking, autonomy and competitive aggressiveness. In addition, Hidayat, Suryana, Afiff, and Cahyandito (2016) concluded in their study and found market orientation to played a significant moderating role on the relationship between entrepreneurial orientation and SMEs performance.

Despite these facts revealed in the literature, the rate of SMEs failure in Nigeria is still high and disturbing (Adegbuyi et al. 2018). However, there were few studies that established the relevance of EO to SMEs performance as literature revealed in developing economies such as Nigeria. Meanwhile, the factors influencing the SMEs performance cannot be limited to five major drivers of EO in the field of management. In fact, many factors were revealed in the literature, such as the market orientation of the owners/managers of SMEs. Therefore, the literature further revealed that Market orientation plays a moderating role in the relationship between EO and SMEs performance in developed countries but not in developing economies such as Nigeria. The literature also revealed that many of the studies on the relevance of EO to SMEs performance were anchored majorly on Resource-Based View (RBV), however, few studies or none considered the role of dynamic capabilities theory as higher-level capabilities that aid knowledge convention and sharing, to analytically solve business problems caused by operational and environmental procedures with market-oriented policies to improve performance.

Hence, this study aims to investigate the impact of entrepreneurial orientation on the performance of SMEs in a developing economy such as Nigeria.

The broad objective of the study is to determine the impact of entrepreneurial orientation on SMEs performance. Other specific objectives are to:

- I. examine the impact entrepreneurial orientation on SMEs Innovation

- II. assess the role of market orientation as a moderator on the relationship between entrepreneurial orientation and SMEs performance.

For this study, hypotheses were formulated as follows;

H0₁: Entrepreneurial orientation does not significantly impact SMEs Innovation

H0₂: Market orientation does not have significant moderating impact on the relationship between entrepreneurial orientation and SMEs' performance

2. Literature Review

Entrepreneurial Orientation

In today's highly competitive business environment, SMEs are looking for ways to improve their performance, most especially on sales growth, market share, and profitability. EO assesses entrepreneurial behavior and explains firm behavior patterns that drive performance.

Etim, Adabu, and Ogar (2017) defined entrepreneurial orientation to be an organisational set of decision-making styles, processes, practices, rules, and norms that is been adopted to improve its innovativeness, proactiveness, risk-taking proclivity, competitive aggressiveness, and autonomy.

Innovativeness

Innovativeness is one of the key characteristics of entrepreneurial behaviour and regarded as the single most important and dominant factor in enhancing and sustaining competitiveness (Ejdys, 2016), and critical component of firm's ability to experiment new ideas to generate future economic benefits (Presutti & Odorici, 2018).

Proactiveness

Proactiveness is a business concept aims to introduce new products ahead of competitors in a sector, as well as to strategically eliminate production processes that have less or no contribution to business life cycle. Hernández-Sánchez, Cardella, and Sánchez-Garca (2020) defined Proactiveness as initiative-taking, anticipating, creating change, and predicting evolution towards a dire situation, as well as early preparation against risk and taking the first step ahead of competitors.

Risk-Taking Propensity

Abdulrab, et al. (2021) defined risk-taking as capability of entrepreneur to make bold moves or decision, such as entering new untapped markets or allocating large amounts of productive assets to tasks with dishonest outcomes or massive borrowing. An entrepreneur takes moderate risks with certainty in business decisions and process rather than being involved in situations involving extreme risk or uncertainty that could result to loss of profit or market share.

Autonomy

According to Balla, Fatiha, and Ibrahima-Samba (2018), autonomy is an effective tool for improving performance in established businesses and flourishes when unbiased people leave comfortable positions to pursue novel ideas in the production of product and service in an economy. Entrepreneurial autonomy is an independent action and decision taken in business operations, to formulate and implement business initiatives to achieve performance

Competitive Aggressiveness

Competitive aggressiveness is a business response from entrepreneur to competitors who are seizing available opportunities to grow their businesses and outperform their competitors in the market. Competitive aggressiveness is defined by Linyiru and Ketyenya (2017) as a large and powerful struggle to challenges of global competition; it is an aggressive response that seeks a better market positioning in the sector or defeats threats from competitors.

SMEs Performance

Performance can be financial or non-financial in nature and is a measurement of how SMEs use their assets to make revenue, through effective management of resources, attainment of employees' satisfaction (Shah & Asad, 2018) and customers loyalty and satisfaction (Asad, Ahmad, Haider, & Salman, 2018). Hidayat, Akhmad, and Mu'alim (2015) opined that organisational performance is usually measured from a financial perspective, a business process perspective, a customer perspective, a personnel commitment and learning perspective, and a commitment perspective. Therefore, this study used innovation to measure SMEs performance from one of the Kirca, Jayachandran, and Bearden (2005)'s non-financial indicators of SMEs performance, which are: customer satisfaction, employee satisfaction, innovation, and growth.

SMEs Innovation

The term “innovation” is derived from the Latin word “innovare,” which means “renewal.” Schumpeter's theory (1934), innovation plays a role in the entrepreneurial process that firms use because it most often improves firm creativity significantly. Kiragu (2016), on the other hand, believes that innovation is the adoption of ideas or behavior regarding a product, service, device, or process.system, policy or programme that is new to the adopting business. Therefore, SMEs innovation is all about decisions to create a new product, process and service that will substantially have an impact on the productivity, performance and growth of the business.

Market Orientation

Hidayat et al. (2016) considers market orientation to be a business prospect in which the customer is viewed as the focal point of business operation and strategies to drive market share and business performance. The emphasis is that a company's attitude toward marketing must come from top management and is dependent on the attitude of the owner/manager toward marketing and key to business performance.

Entrepreneurial Orientation and SMEs Performance

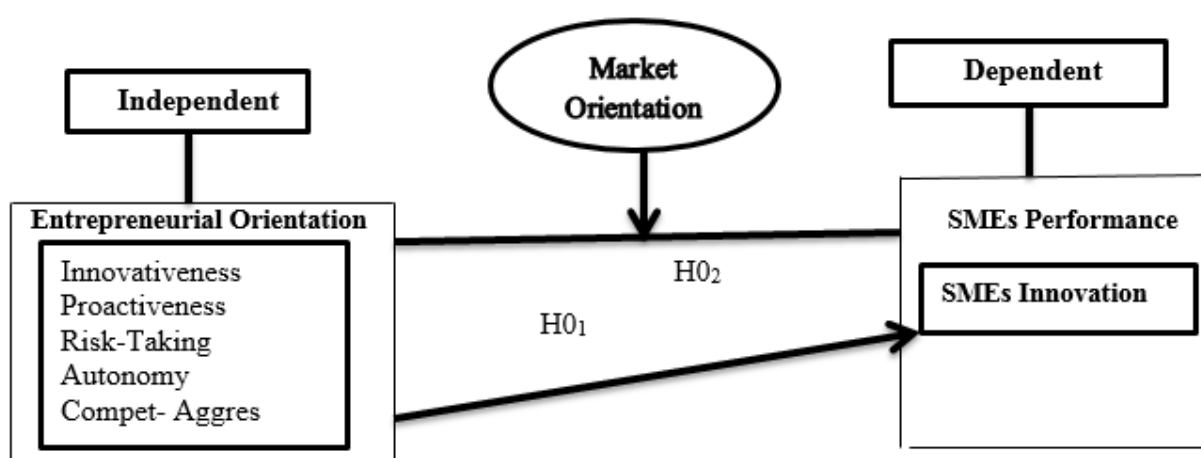
Innovation, proactiveness, risk-taking, competitive aggressiveness, and autonomy are key determinant factors for SMEs to enhance performance with nurturing of entrepreneurial mindset. This encompasses the generation of new ideas and their implementation in the form of new products, services and or processes, which will eventually lead to an increase in an organisation's growth and performance (Schumpeter, 2011) in (Adegbuyi, et al. 2018). Ibidunni, Olokundun, Oke, and Nwaomonoh (2017) states that the concept of entrepreneurial orientation as a stimulant of SMEs' performance involves a combination of major drivers of entrepreneurial orientation, which is extremely worried with nurturing and enabling new ideas, experimentation, and creativity in order to produce new products, services, or processes

The Moderating Role of MO between EO and SME's Performance

On the studies by Jogaratnam (2017) and Lonial and Carter (2015), they argued that a firm should not rely on a single resource or capability to enhance business performance, but rather develop a combination of resources (e.g. MO and EO) to drive competitive advantage and ensure superior performance for the business. Market orientation refers to the creation and implementation of the marketing concept within a company, and when combine with EO, is intended to increase customer satisfaction and improve the performance of the business company (Asad, Sharif & Hafeez 2016).

3. Conceptual Model

The researcher developed a research model to investigate the impact of entrepreneurial orientation on SMEs performance.



Source: Author's Conceptual Framework (2022)

Theoretical Framework

Dynamic Capabilities Theory

Dynamic capability theory explains how, in dynamic markets, organisational responsiveness and innovativeness become timely, rapid, and flexible through entrepreneurial orientation. Dynamic capability is defined as the ability of the organisation to provide business solution and solve problems analytically as a result of its proclivity to perceive opportunities and ultimatums, as well as make market-oriented policies to modify its resource foundation (Di Stefano, Peteraf & Verona, 2010). Dynamic capabilities are higher-level capabilities that promote knowledge convention and sharing, constant modification of operational procedures, interaction with the environment, and the application of appropriate entrepreneurial orientation practices that promotes organisational improvement.

Therefore, this study anchored on dynamic capability theory because it plays critical role in EO and SMEs performance.

Empirical Review

Ejdys (2016) studied the relationship between Entrepreneurial orientation and innovativeness of SMEs. The study revealed a positive impact on company performance because they improve overall organisational market performance learning and drive a wide range of knowledge creation, laying the

groundwork for new organisational competencies. Hence, EO necessitates that an organisation constantly acquire and develop resources that can be a source of business performance

Cho and Lee (2018) studied EO with a sample size of 1,248 SMEs from various countries. The result of the study found that entrepreneurial orientation is significant and have positive relationship with the performance of SMEs. The study therefor reaffirmed the role of EO on organisational performance.

Hernández-Sánchez, Cardella, and Sánchez-García, (2020) study demonstrated significant impact of entrepreneurial orientation on non-financial and financial affairs of SMEs using the five-axis of the multidimensional entrepreneurial orientation system on SMEs (e.g. innovativeness, pro-activeness, risk-taking, autonomy and competitive aggression)

Mahmutaj and Krasniqi, (2020) on their study assessed the impact of different forms of organisational innovation on firm growth, in terms of sales, with total of 278 SMEs samples from manufacturing, service and trade sector. According to the findings of the study, marketing innovation is positively associated with firm growth, whereas new to the firm products are negatively associated.

4. Methodology

The study employed a survey research design to investigate the impact of entrepreneurial orientation on SMEs performance in Lagos State. The population of the study consists of SMEs in Lagos State, Nigeria. The researcher adopted the use of primary data for the collection of relevant information related to the variables of the study through the use of questionnaires. The questionnaire items were adapted from related past studies with modification and approval by scholars to fit into the current research. Simple random sampling technique was adopted with 520 respondents as our focus, and questionnaires were administered across the 37 local government areas in Lagos State., out of 520 questionnaires distributed; only 448 were properly filled and retrieved for analysis, which represents 86.15% response rate.

Model Specification

The model for the study is stated below:

$Y = f(x)$, Y = Dependent variable, X = Independent variable, Z= Moderating

Where:

Y = SMEs Performance (SP), y1 = SMEs Innovation (SI), X = Entrepreneurial Orientation (EO), Z= Market Orientation (MO)

$Y = (y1)$, $X = (X)$, $Z = (z)$

Functional relationship: $y1 = f(X)$obj. 1

$Y = f(X, X*Z)$ obj. 2

The variables in equation 1 & 2 are the working equations evaluated in the study

Regression, we have

$SI = \alpha_0 + \beta_{1EO} + \mu$equation 1 for obj.1

$SP = \alpha_0 + \beta_1EO + \beta_2EO*MO + \mu_i$ equation 2 for obj. 2

Where α = the constant of the equation

β_1 = the coefficient of variables in the equations;

μ_i = the stochastic function that accounts for the errors that may arise in the equation.

Results and Discussion

- I. H_{01} : entrepreneurial orientation does not significantly impact SMEs' Innovation in Lagos State, Nigeria.

Table 3. Summary of the Regression Analysis of Impact of Entrepreneurial Orientation on SMEs' Innovation in Lagos State, Nigeri

	Sum of square	df	MODEL	β	Sig.	T	ANOVA (Sig)	R	Adjusted R ²	F
Regression	276.157	1	Constant	1.477	0.004	65.204	0.000	0.986	0.972	15793.896
Residual	7.798	446	EO	0.677	0.000	125.674				
Total	283.955	447								
Predictors: (Constant), Entrepreneurial orientation										
Dependent Variable: SMEs Innovation										

Source: Author's Computation (2022).

The model summary in table 3 gives results of the analysis with adjusted R² value of 0.972. This indicates that entrepreneurial orientation drivers collectively explained 97.2% of the changes in SMEs' Innovation in Lagos State. The table equally provides the results of the regression analysis of the variance (ANOVA). The results indicate that the overall model was statistically significant. This was supported by an F statistic of 15793.896 and the p-value was 0.000 less than the conventional probability of 5% level of, significance.

The results also show that entrepreneurial orientation has significant impact on SMEs Innovation of selected SMEs in Lagos State at $\beta = 0.677$, $t = 125.674$, $p < .05$. This implying that a unit change in entrepreneurial orientation leads to 67.7% change in SMEs Innovation. The t-statistic of 125.674 and p value of 0.000 shows that at 5% level of significance, the null hypothesis (H_{01}) was rejected; thus implying that entrepreneurial orientation has significantly impact on SMEs' Innovation in Lagos State, Nigeria. The outcome of the study supported the study of Cho and Lee, (2018) and Ejidys (2016) that entrepreneurial orientation positively impacted SMEs performance.

- II. H_{02} : Market orientation has no significant moderating effect on the relationship between entrepreneurial orientation and SMEs' performanc

Table 4. Results for Moderating effect of Market Orientation on the Relationship between Entrepreneurial Orientation and SMEs' Performance

MODE L		B	Sig.	T	ANOVA(Sig)	R	Adjusted R ²	R ² Change	F
1	Constant	1.477	0.000	65.204	0.000	0.986	0.972	0.973	15793.896
	EO	0.677	0.000	125.674					
2	Constant	1.459	0.000	66.017	0.000	0.987	0.974	0.002	8462.811
	EO	0.381	0.000	7.251					
	MO	0.302	0.000	5.662					
3	Constant	1.072	0.000	29.331	0.000	0.990	0.981	0.007	99.245
	EO	0.563	0.000	11.819					
	MO	0.419	0.000	8.92					
	EO*MO	0.047	0.002	-12.401					
Predictors: (Constant), Entrepreneurial orientation Predictors: (Constant): Entrepreneurial orientation, Market Orientation Predictors: (Constant), Entrepreneurial orientation, market orientation, EO*MO									

Source: Author's Computation, (2022)

Table 4 shows hierarchical multiple regressions results for the moderating effect of market orientation on the relationship between Entrepreneurial Orientation and SMEs performance in Lagos State. From table 4, Model 1 show an adjusted R² of 0.972 and [F = 15793.896,]. This indicates that Entrepreneurial orientation explained 97.2% of changes in SMEs' performance in Lagos State .Model 2 in table 4 show that adjusted R² of 0.974 and [F = 8462.811]. The value of adjusted R² shows that Entrepreneurial orientation and Market orientation explained 97.4% of the variance in the SMEs performance in Lagos State. Model 3 in table 4 show results of analysis after the interaction (Entrepreneurial orientation and market orientation, that is, EO*MO) was added into the model. Result indicates that the inclusion of the interaction term resulted in R² change of .007, [F Change = 153.787, showing the presence of a significant moderating effect of market orientation (MO). The results show that the moderating effect of market orientation has 0.7% variance in the SMEs performance in Lagos State, above the variance by Entrepreneurial orientation and Market orientation. This implies that market orientation has a significant moderating effect on the relationship between Entrepreneurial Orientation and SMEs performance in Lagos State. According to the regression model, holding Entrepreneurial orientation, Market Orientation, and interaction of Entrepreneurial Orientation and Market Orientation constant at zero, SMEs Performance in Lagos State was 1.072 units. The result showed that Entrepreneurial orientation was found to be significant ($\beta = 0.677$, $t = 125.674$, $p < 0.05$). The results revealed that market orientation was statistically in explaining SMEs performance in Lagos State ($\beta = 0.419$, $t = 8.920$, $p < 0.05$). Also, the results reveal that the interaction of Entrepreneurial orientation and market orientation was significant ($\beta = -0.047$, $t = -12.401$ $p < 0.05$). This means that market orientation has a moderating effect on the interaction between Entrepreneurial orientation and SMEs performance in Lagos State. Therefore, the study reaffirmed the study of

Hidayat et al.(2016) that revealed the positive and significant moderating effect of market orientation on the relationship between entrepreneurial orientation and SMEs performance

5. Conclusion and Recommendations

This study investigated the impact of entrepreneurial orientation on the performance of selected Small and Medium Enterprises (SMEs) in Lagos State, Nigeria. Based on the findings revealed by the statistical analysis, the study concludes that entrepreneurial orientation has a significant impact on the innovation performance of SMEs in Lagos State, Nigeria. The study further concludes that market orientation is an important driver to higher performance in the context of SMEs and also reaffirmed the moderating role of market orientation on the relationship between entrepreneurial orientation and SMEs performance.

Based on the conclusion, the study recommends as follows:

1. To achieve innovativeness, Managers/Owners of SMEs should incorporate all of the major EO drivers (innovativeness, proactiveness, risk-taking proclivity, autonomy, and competitive aggressiveness) into their business decision-making process.
2. Managers and Owners of Small and Medium-Sized businesses (SMEs) should embrace innovation to gain a competitive advantage and improve performance.
3. Managers/Owners of SMEs should consider the need for creation of marketing department or dedicate at least one employee to the marketing functions in their business, because of the crucial role of marketing to drive customers for higher performance.

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