

# Assessing the Impact of Entrepreneurial Orientation Proxies on SMEs Performance in Nigeria

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## ABSTRACT

*This paper examines the relationship between the traditional proxies of entrepreneurial orientation and the business performance of SMEs in Nigeria. The outcome revealed that there was statistically significant relationship between the dimensions of entrepreneurial orientation such as innovativeness and risk taking; whereas proactiveness was not significant. A sample size of 367 respondents were drawn from a population of 7987 participants across the three senatorial zones of Oyo State in Nigeria. A response rate of 38% was arrived at. Multiple regression technique was utilized to substantiate the survey findings. The result showed the variability in the prediction equation to be 56.8%; where innovativeness revealed to be the dominant variable in explaining the model. The study has provided a strong indication as to which of the variables organizations should pay more attention to.*

**Keywords:** *Entrepreneurial Orientation, SME Performance, Innovativeness, Risk-taking, Proactiveness*

## 1.0 INTRODUCTION

This paper aims to establish the nexus: entrepreneurial orientation on SMEs Performance in Nigeria. The paper intends to examine the proxies of Entrepreneurial orientation such as: proactiveness, risk taking and innovativeness as independent variables against SMEs performance as dependent variable.

Entrepreneurial orientation (EO) is a firm-level strategic orientation which captures an establishment's strategy-making practices, managerial philosophies, and firm behaviours that are entrepreneurial in nature (Anderson, Brian; Covin, Jeffrey; Slevin, Dennis 2009). Edmond and Wiklund, (2010) discussed how the concept of EO evolved in the 1970s and has since then aroused a great number of scholarly works (Wales, 2016). In furtherance to this assertion, Covin & Wales, (2012) discussed how entrepreneurial orientation has become an

important subject of entrepreneurship research for the last 40 years. They revealed that the origins of EO research can be tracked to the work of Mintzberg (1973). Child (1972) advanced the origins of entrepreneurial orientation from a strategic-choice perspective. Well along, Lumpkin & Dess (1996) further specified that EO may well be defined as processing, practicing, and decision-making actions that lead to such new entries. Typically, it is defined as a multidimensional construct, applied at the organisational level, which describes firm's entrepreneurial behaviour and consists of one or numerous of these three dimensions: risk-taking, innovativeness and pro-activeness.

Similarly, Pearce et al. (2010) described EO as a set of separate but related behaviours that have the characteristics of pro-activeness, innovativeness, risk taking, competitive aggressiveness, and autonomy. Conversely, Hoque et al. (2018e) declare that EO shows firm's ability of innovation and pro-activeness with the object of pleasing potential customer desires, through discoveries new products or services, leveraging resources and by taking risk before its competitors. In the same way, Miller (1983) defines EO as a function of an entrepreneurial firm involves in product marketing innovation, commences risky ventures, and is first to come up with proactive innovations.

Assessments of the Entrepreneurial orientation works of literature show that most prior studies have adopted Miller's perspective of EO as the combination of innovativeness, proactiveness, and risk-taking (Rauch, Wiklund, Lumpkin and Frese, 2009; Wales, Gupta, Mousa, 2013).

Research have shown that entrepreneurial orientation has become one of the well-known and studied concepts in the entrepreneurship literature (e.g. Wales, 2015; Covin, and Lumpkin, 2011; Wales, 2013).

Meanwhile, Lumpkin and Dess (1996) offer an alternative understanding of EO as the amalgamation of five dimensions, those put forth by Miller/Covin and Slevin as well as competitive aggressiveness and autonomy. Additionally, they suggest that additional understandings stand to be added from examining the dimensions individually.

## 1.2 OBJECTIVES OF THE STUDY

- To examine the relationship between innovativeness and SME performance
- To assess the relationship between proactiveness and SME performance
- To ascertain the relationship between risk-taking and SME performance

## 2.1 CONCEPTUAL FRAMEWORK

A useful conceptual model helps to guide the researcher and draws attention to key events and phenomena. The framework for this study is a blend of concepts and phenomena. It assists to provide a perspective of the phenomena under study. In this extant study, the conceptual framework is based on three key variables that are assumed to boost SME performance. They include innovativeness, proactiveness and risk-taking.

### 2.1.1 Innovativeness

Schumpeter (1934) was one of the first writers to present the innovation function into the entrepreneurial process. Kibassa (2012) suggests innovativeness to be the component of human disposition, which supports entrepreneurs in fostering innovations in their business. A willingness to introduce newness and novelty through experimentation and creative processes designed at developing new products and services, as well as new processes. The innovativeness of an entrepreneur may perhaps tend to improve towards the attainment of economic development through the development of SMEs. These SMEs within the locality will employ more people thereby increasing the wealth of the locality. The innovativeness dimension of EO echoes an inclination to involve in and support fresh ideas, novelty, experimentation, and creative processes, thereby departing from traditional practices and technologies (Lumpkin and Dess, 1996).

### 2.1.2 Proactiveness

Proactiveness denotes a stance of expecting and acting on imminent wants and needs in the marketplace, thereby making a first-mover advantage regarding competitors (Lumpkin and Dess, 1996). With such a forward-looking viewpoint, proactive firms have the longing to be forerunners, thereby exploiting on emerging opportunities. A forward-looking perspective characteristic of a marketplace leader that has the foresight to seize opportunities in anticipation of future demand.

### 2.1.3 Risk-taking

In entrepreneurship literature, Kirby (2003) upheld that the idea of assuming risks and uncertainty began in the 18th century through economic theory which was advanced by Cantillon in 1931. Building on the work of Cantillon (1934), Isaga 2012, stated that the key element that distinguishes an entrepreneur from a hired employee was uncertainty and the risk embedded in self-employment. In view of this concept, Chell, Haworth and Brearley (1991) described a risk-taker as the individual who pursues a business idea with the possibility to succeed. When an entrepreneur succeeds, there is tendency to expand his business and engage more people in employment, thereby creating wealth within the locality and accordingly economic development. Risk taking is linked to a willingness to commit more resources to projects where the cost of failure may be high (Miller and Friesen, 1982). Furthermore, it suggests committing resources to projects where the outcomes are unknown. It basically reflects that the business is willing to break away from the tested and venture into the unknown.

## 2.2 HYPOTHESES DEVELOPMENT

### 2.2.1 EO and Firm Performance

Research in the past has recognized the relevance of EO to the performance of the firm (Zahra & Covin, 1995). The most widely used meaning of EO is focused around the work of Miller (1983), advanced further by Covin and Slevin (1989) and numerous others, and later enhanced by Lumpkin & Dess (1996). EO indicates whether

business firms take decisions that are risky, proactive and innovative in achieving its objectives (Covin & Slevin, 1989). Similarly, EO can be seen as a particular process through which firms relate to opportunities and activities that lead to new business opportunities (Lumpkin & Dess, 1996). These processes, actions and intentions include risk taking behaviour, ability to act autonomously and proactively, in innovative and aggressive ways towards competitors (Lumpkin & Dess, 2001). According to Wiklund and Shepherd (2005), EO is a firm's strategic ability to capture specific aspects of decision-making, methods and business practices. Thus, firms with sound EO can have the ability to discover and use new market opportunities. Covin and Miller (2014) refer to risk taking as high financial leverage. While innovativeness is the ability of the firm to come up with new products and ideas, the strength of this ability is usually measured by the actuality of these ideas as products (Covin & Miller, 2014). Finally, proactiveness is looking into the future on the basis of environmental demand, where firms look out for opportunities and develop new products to gain the advantages of inventive and leading the competitors (Hughes & Morgan, 2007).

EO as a strategic resource of a firm found to relate positively with firm performance (Hakala & Kohtamaki, 2010). Likewise, a study conducted by Long (2013) found a positive relationship between EO and firm performance. Furthermore, some research studies have shown that that the higher the firm's EO, the more the firm can achieve superior performance (e.g. Kraus, 2013; Roxas & Chadee, 2013). An examination on study relating to the impact between EO and profitability indicates that EO has direct effects on both profitability and growth (Hakala, 2013).

Similarly, Brouthers, Nakos and Dimitratos (2015) results show that SMEs have higher international performance when they have better Entrepreneurial Orientation. Additionally, the relationship between Entrepreneurial Orientation and business performance in Malaysia was found to be positively significant (Aziz, Mahmood, Tajudin, & Abdullah, 2014). Moreover, the study by Laukkanen, Hirvonen and Pasanen (2013), show that EO has a positive influence on SMEs' growth both in Hungary and Finland through brand and market performance. In addition, a study conducted by Al-dhaafri & Al-swidi, (2014) indicate that the effect of EO on firm performance in Dubai was established to be positively significant.

Recently, Hoque et al., (2018e) and Zeebaree & Siron, (2017) describe EO as a higher order construct, and each dimension of EO construct (i.e. proactiveness, innovativeness, risk-taking, and resource-leveraging) may well have a distinct relation to the performance variables). Consequently, EO is one of the key resources that impact SME's performance. Therefore, this study hypothesized the following:

H1: Innovativeness is statistically related to SME Performance

H2: Proactiveness is significantly related to SME Performance

H3: Risk-taking is significantly related to SME Performance

### 3.1 RESEARCH METHODOLOGY

#### 3.1.1 Research Design

As an empirical research, this extant study was conducted as a cross-sectional quantitative survey as the research design. It collects data to make inferences about a population of interest (universe) at one point in time. time (Kumar, Talib, & Ramayah, 2013; Sekaran & Bougie, 2013; Zikmund, Babin, Carr, & Griffin, 2013).

The choice of a cross – sectional design is due to its cost effectiveness and time constraint; time saving which meets the requirement of this study (Nanja, 2010) This implies that data are collected at one time rather than over a period of time like in the case of longitudinal design which is an observational research method in which data is gathered for the same subjects repeatedly over a period of time. Longitudinal research projects can extend over years or even decades. For instance, in a longitudinal cohort study, the same individuals are observed over the study period.

The population of the study comprises of 7987 SMEs (SMEDAN 2013). The number of SMEs in Oyo State was obtained from SMEDAN and National Bureau of Statistics Collaborative Survey (2013). The sample size was determined using Raosoft sample size calculator. 367 sample size was drawn from the population of 7987 (7468 Small enterprises and 519 Medium enterprises). The researchers were able to gather 139 useable questionnaires.

Therefore, the response rate for the survey was 38%, which was considered satisfactory as Sekaran (2003) recommends 30% response rate as acceptable for surveys. Stratifying sampling technique was used for data gathering. The three senatorial zones were grouped into strata. Each stratum represents a senatorial zone.

Data were analysed using Multiple regression analysis, employing the Statistical Product and Service Solutions (SPSS) Version 22.

### 3. MEASURES

#### 3.1 Entrepreneurial Orientation

Historically, questionnaire related to entrepreneurial orientation was developed by Covin and Slevin (1991). It was employed to measure the variables of entrepreneurial orientation of the SME. The respondents were asked to select the response that is closest to the degree of agreement with the respective question. The respondent must choose a position based from 1 to 5 range on the Likert scale format. Numerous scholars have tried and established the reliability and validity of the scale (Covin & Slevin, 1991; Knight, 1997).

#### 3.2 Performance

In terms of the performance of the SME, it is measured through an individual approach. In this approach the performance of a particular SME is measured by the perception of the owner/managers providing responses to the Business Performance Questionnaire. The proprietors were requested to state their business's performance measures such as sales growth, employment growth, market value growth, profitability and overall performance. This approach was chosen since there is no agreement among researchers on a suitable measure of performance.

#### 4. DATA ANALYSIS

The Figure 1 (Normality Histogram) below is a plot of the residuals versus predicted Y. The pattern reveal here specifies no problems with the assumption that the residuals are normally distributed at each level of Y and constant in variance across levels of Y.

The probability plot (P-P) of the Regression Standardised Residual as shown in Figure 2 below shows that the points lie in a reasonably straight diagonal line from bottom left to top right. Theological implication is that no keydeviations from normality. This can be substantiated as can be seen from the linearity graph, which revealed that data points were clustered along the linear line (line of best fit) with no outlier; thus, suggesting good linearity, thereby satisfying the linearity condition.

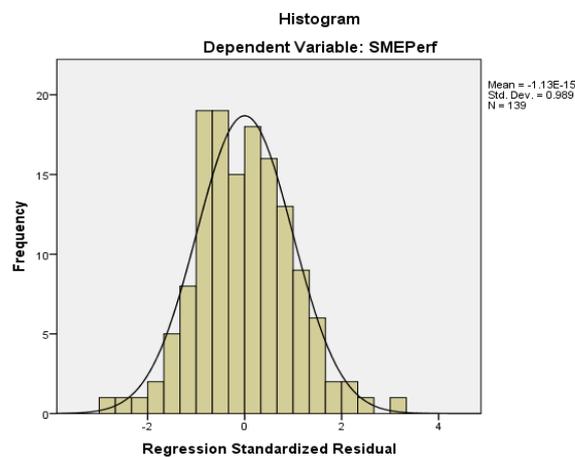


Figure 1: Normality Histogram

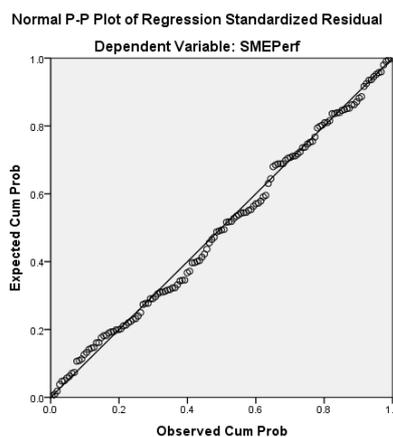


Figure 2: Linearity P-P Plot

Table1: Reliability Statistics

Cronbach's Alpha	N of Items
.725	4

Cronbach's coefficient alpha is the most commonly used type of internal consistency of a multiple item scale (Leech, Barrett, & Morgan, 2014). Alpha is employed in this study since Leech et al. (2014) recommended that alpha to be used when several Likert type items that are summed to make a composite score or summated scale, which the study followed. Several works of literature in the social science, extensively employed alpha, since it offers a measure of reliability that can be gotten in the study from just one testing session or one administration of a questionnaire (Leech et al., 2014). The closer Cronbach's alpha is to one, the higher the internal consistency reliability. Generally, reliabilities less than 0.6 are regarded to be poor, those in the 0.70 range, acceptable and those within 0.80 and above are considered good (Cronbach & Meehl, 1955; Sekaran & Bougie, 2010). Thus, with the value of 0.786, the data is thus reliable and fit for the analysis.

**Table 2: Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.753 <sup>a</sup>	.568	.558	2.324	2.224

a. Predictors: (Constant), Proactiveness, Risk-taking, Innovativeness

b. Dependent Variable: SMEPerf

Table 2 which is the Model summary, examines the strength of the prediction equation. A measure of the strength of the computed equation is the R<sup>2</sup> or coefficient of Determination. R<sup>2</sup> represents the proportion of variance accounted for in the dependent variable "Organizational Performance" by the independent variables (innovativeness, Risk taking and Proactiveness). Consequently, for this study, the predictor variables of innovativeness, Risk taking have explained 56.8% of the variance in the dependent variable "OrgPerf" of the SMEs as shown in Table 2. Hair, Black, Babin and Anderson (2010), put forward that the acceptable level of R<sup>2</sup> value depends on the research context, however, Falk and Miller (1992) recommend an R<sup>2</sup> value of 0.10 as a minimum acceptable level.

Meanwhile, Chin (1998) recommends that the R<sup>2</sup> values of 0.67, 0.33, and 0.19 can be considered as substantial, moderate, and weak, respectively. Table 2 shows the R<sup>2</sup> values of the dependent variable (SMEPerf) to be 56.8%, which is considered as "Moderate".

Similarly, from Table 2, Durbin Watson (DW) was used to assess the multicollinearity between the independent variables. DW value that lies between 1.5 and 2.5 suggests absence of multicollinearity. With the DW value of this study being 2.224, which shows no multicollinearity, thus fulfilling the assumption of no Multicollinearity.

**Table 3 ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	957.763	3	319.254	59.091	.000 <sup>b</sup>
	Residual	729.374	135	5.403		
	Total	1687.137	138			

a. Dependent Variable: SMEPerf

b. Predictors: (Constant), Proactiveness, RiskTaking, Innovativeness

The ANOVA table (Table 3) presents results that shows that  $p < 0.05$ . this suggests that at least one of the three independent variables (innovativeness, risk taking and proactiveness) can be used to model SME performance. Additionally, the ANOVA table reveals that the computed F statistic is 59.091, with an observed significance level of less than 0.001. This shows that the combination of the independent variables significantly ( $P < .001$ ) predict the dependent variable SMEPerf.

**Table4: Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	7.457	1.611		4.628	.000
	Innovativeness	.481	.050	.619	9.603	.000
	Risk-taking	.212	.059	.229	3.606	.000
	Proactiveness	.016	.068	.014	.242	.809

a. Dependent Variable: SMEPerf

On further investigation, it was discovered that Innovativeness and Risk-taking are very significant, accordingly, very vital to SME Performance with  $p < 0.05$ . Additionally, Innovativeness and Risk-taking seem to be greatest defining factors to SME Performance with Beta values of .619, and .229 respectively.

From the coefficient table (Table 3), proactiveness contribute less to SME Performance.

The prediction Equation is given as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \epsilon$$

Where:

Y is the Dependent variable (OrgPerf)

$\beta_0$  is the constant

$\beta_1$ -2 are unstandardized regression coefficients

$X_1$  is value of independent variable (Innovativeness)

X<sub>2</sub> is value of independent variable (Risk-taking)

$\epsilon$  is the error term

The beta weights presented in Table 4 suggest that Innovativeness contributes most to predicting SMEPerf and that Risk-taking also contributes to this prediction.

Predicted SMEPerf = 7.457 + .481 Innovativeness + .212 Risk-taking.

Therefore, for every unit increase in Innovativeness, SME Performance will go up by 0.481 units, provided the other variable (Risk-taking) remain unchanged.

For every unit increase in Risk-taking, SME Performance will go up by 0.212 units, provided the other variable (Innovativeness) remain unchanged.

## 5. CONCLUSION AND RECOMMENDATION

This study shows that certain factors influence SME performance. Based on the result of multiple regression, it was found that there is a linear relationship in the prediction equation model. In other words, two of the three predictor variables positively and significantly influence SME performance simultaneously. Both Innovativeness and Risk-taking are very significant, implying that they are very strategic to entrepreneurship practice. To be precise innovativeness seemed to be very key factor in SME performance in terms of openness to new ideas, process and product creativity as well as pursuit of creative or novel solutions. This is consistent with earlier scholars (e.g. Frishammar & Horte, 2007; Dess & Lumpkin, 2005; Knight, 2001). Furthermore, risk taking is also an influencer of SME Performance, as it contributed a reasonable amount of impact to the criterion variable in terms of decisions in uncertainty as well as implementation of projects entailing significant chances of costly failure. This is also consistent with earlier researchers such as Dess & Lumpkin, 2005; Khandwalla, 1977; Miller & Friesen, 1984.

The outcome of the study was not a surprise as we generally know the importance of innovativeness as well as the concept of risk-taking in entrepreneurship. An entrepreneur ought to bring in originality by virtue of introducing new ideas. Also, as innovation drives entrepreneurship through actions derived from innovation, the role of innovativeness cannot be overstressed. Meanwhile risk-taking, is one of the attributes of an entrepreneurship. Finally, a firm is entrepreneurial if it is innovative and risk-taking.

In terms of limitation of the study and its attendant future research, even though the study was able to explain 56.8% of the model, future research should consider the unexplained factors (43.2%) that may perhaps increase the contribution to the model.

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