Original Research Article

Exploring Entrepreneurial Orientation (EO) and Performance Among Small and Medium Scale Enterprises In Nigeria

ABSTRACT

This research is designed to examine the influence of entrepreneurial orientation (EO) on performance of Small and Medium Scale Enterprises (SMEs). The study was carried out in the South-South Geopolitical Region of Nigeria. The proxies for EO were innovativeness, risk-taking, proactiveness, autonomy and competitive aggressiveness. The survey research design was adopted for this study and a sample size of 1308 SMEs was selected. Copies of an adopted questionnaire were administered to the respondents who were owners/managers of the selected SMEs using the stratified random sampling method. The data collected were analysed using Pearson's correlation analysis and hierarchical multiple regression analysis. The result of the research revealed that entrepreneurial orientation (EO) has significant influence on performance of SMEs in Nigeria. Consequently, it was recommended among others things that owners/managers of SMEs in Nigeria should focus their resources to promote innovative projects and institute proactive strategies to achieve first mover advantage by monitoring market trends, getting first-hand business information from policy makers, while anticipating competitive moves from competitors.

Keywords: Entrepreneurial orientation; Innovativeness; Risk-taking; Proactiveness; Autonomy; Competitive aggressiveness; SME; Performance

1. INTRODUCTION

Small and Medium Scale Enterprises (SMEs) represent an important part of the economies of both developed and developing countries. They have often been acknowledged as productive and efficient job creators, large-scale seed companies and engines for national economic development [1]. However, despite their contributions to national economy, fast-changing and intense worldwide competitive environment brought about by globalisation has placed Nigerian SMEs in a vulnerable position. To deal with these challenges, multiple models have been put forward in the entrepreneurship literature. One of which is Entrepreneurial Orientation (EO).

Entrepreneurial orientation (EO) refers to the strategy-making processes that provide organizations with a basis for entrepreneurial decisions and actions [2]. It is an individual's attitude towards engaging in entrepreneurial activities, be it within an existing firm or creating a new venture [3] and encompasses entrepreneurial aspects of a firm's decision-making styles, methods, and practices [4]. EO is conceptualised as a multidimensional construct

with five sub-dimensions; innovativeness, risk taking, proactiveness, autonomy, and competitive aggressiveness.

In theory, entrepreneurship scholars have argued that entrepreneurial orientation within existing business organizations is a source of rejuvenation which enhances performance and gives organizations competitive edges over rivals [5]. It is further argued that firms that possess higher levels of entrepreneurial orientation will perform better than those with lower levels of entrepreneurial orientation [2]. Also, extant literature acknowledges that organizational-level entrepreneurial orientation is related to profitability, growth, strategic renewal, market share, wealth creation, and overall performance [6]. It is further argued that firms that possess higher levels of entrepreneurial orientation will perform better than those with lower levels of entrepreneurial orientation. This study is designed to empirically ascertain these claims within the context of a developing economy like Nigeria.

2. THEORETICAL FRAMEWORK

The resource based view (RBV) stems from the principle that the source of firms performance and competitive advantage lies in their internal resources, as opposed to their positioning in the external environment. That is, rather than simply evaluating environmental opportunities and threats in conducting business, certain types of resources owned and controlled by firms have the potential to generate superior performance and eventually competitive advantage. However, to transform a short-run competitive advantage into a sustained competitive advantage requires that these resources, which may be tangible or intangible, are heterogeneous in nature, not perfectly distributed and must satisfy the VRIN framework (Valuable, Rare, In-imitable and Non-substitutable). Within this context, EO has been considered as one of the most critical resources that determine a firm's performance and consequently competitive advantage [7].

EO research has consistently followed [8] notion of concurrent manifestation of innovativeness, proactiveness, autonomy, competitive aggressiveness and risk-taking [9]. As such, firms with high EO are seen as having greater novelty towards product-to-market combination, bold strategic decisions to seize new opportunities and being ahead of their competition. They are also characterised by their preference for risky scenarios with high potential returns. These behavioural patterns are intangible and dispersed among organization members, as such are rare, valuable, and cannot be imitated or substituted [10,11]. Also, reinforcing the valuable, rare, non-substitutable and in-imitable elements of the EO resource, [5] opined that the dimensions embodied in EO cannot be acquired from the market like some technological or financial resources since these dimensions are embedded in organisational routines. They asserted that a great deal of investment is needed to develop the EO culture within a firm. This implies that though a firm's actual strategic moves can be perceived by competitors, the manifestation of EO underlying those moves may be difficult for competitors to understand or imitate. This is because a firm's EO is unique to the firm, as such a source of enhanced performance and sustainable competitive advantage.

Prior studies suggest that entrepreneurial orientation (EO) is beneficial to organizational performance [2,12,5]. Putting it differently, entrepreneurial organisations perform better and enjoy competitive edge over competitors. According to this line of research, and consistent with the predictions of RBV, it is expected that the extent of EO in firms will generally lead to enhanced performance in such firms.

Hypothesis: Entrepreneurial orientation (EO) is positively related to firm performance.

3. METHODOLOGY

This study was carried out in the South-South geopolitical region of Nigeria. It adopted the survey research design. The sample for this study was made up of 1308 small and medium enterprises (SMEs) selected from the six (6) states that makes up the geopolitical zone at 218 SMEs per state using stratified random sampling technique. For this study, SME was defined as any enterprise with an asset base of between Five Million Naira and Five Hundred Million Naira (excluding land and buildings) and employing between 10 and 199 people [13]. The scale to measure EO was adapted from a questionnaire earlier used by [14]. Five dimensions of EO (innovativeness, proactiveness, risk-taking, autonomy, and competitive aggressiveness) comprising 18 items were examined in this study. SME performance was measured using four items i.e. product performance, market share, customer performance, and sales performance. The adapted questionnaire was structured using a five-point Likert scale. It was subjected to face and content validity and had a reliability coefficient of 0.79. Data collected for the study were analysed using Pearson's correlation analysis and hierarchical multiple regression analysis. The owners/managers of the selected SMEs made up the respondents for the study.

4. RESULTS

Table 1 displays the bivariate correlation for the variables of entrepreneurial orientation and SMEs performance. Overall, the correlation matrix shows significant relationship between the variables of EO and variable of SMEs performance except for autonomy and competitive aggressiveness that did not correlate significant with any variables of SMEs performance.

Specifically, the results show that innovativeness has positive and significant relation with product performance (r = .24, P < .05), market share (r = .31, P < .05), customer performance (r = .21, P < .05), sales performance (r = .49, P < .05) and SMEs performance (r = .66, P < .05). Proactiveness has significant and positive relationship with product performance (r = .19, P < .05), market share (r = .55, P < .05), sales performance (r = .45, P < .05) and SMEs performance (r = .53, P < .05), but not with customer performance (r = .08, P < .05). The results also indicate that risk-taking correlated positively and significantly with product performance (r = .29, P < .05), market share (r = .27, P < .05), customer performance (r = .26, P < .05), sales performance (r = .29, P < .05) and SMEs performance (r = .31, P < .05).

Furthermore, the correlation matrix shows that there is no significant relationship between autonomy and product performance (r = .18, P < .05), market share (r = .11, P < .05), customer performance (r = .15, P < .05), sales performance (r = .09, P < .05) and SMEs performance (r = .07, P < .05). With regards to competitive aggressiveness, there is no significant relationship with product performance (r = .04, P < .05), market share (r = .11, P < .05), customer performance (r = .06, P < .05), sales performance (r = .05, P < .05) and SMEs performance (r = .12, P < .05).

These results imply that there is significant and positive relationship between three EO variables (innovativeness, risk-taking and proactiveness) and SMEs performance. However, autonomy and competitive aggressiveness did not relate significantly with SMEs performance.

Table 1. Correlation matrix

	Variables	1	2	3	4	5	6	7	8	9	10
1	Innovativeness	1									
2	Proactiveness	0.24	1								
3	Risk-taking	0.35	0.33	1							
4	Autonomy	0.02	0.22	0.46	1						
5	Comp. Agg.	0.08	0.14	0.04	0.16	1					
6	ProdPerf	0.24	0.19	0.29	0.18	0.04	1				
7	MktShare	0.31	0.55	0.27	0.11	0.11	0.04	1			
8	CustPerf	0.21	0.08	0.26	0.15	0.06	0.18	0.17	1		
9	SalesPerf	0.49	0.45	0.29	0.09	0.05	0.10	0.31	0.17	1	
10	SMEperf	0.66	0.53	0.31	0.07	0.12	0.45	0.67	0.33	0.79	1

**Correlation coefficients >.19 were considered significant at P < .05*

Hierarchical multiple regression analysis was used to investigate the predictors of SMEs performance and to evaluate the amount of variance in SMEs performance that could be explained by the independent variables. Table 2 presents a summary of the findings. The overall SMEs performance model has a strong coefficient of determination (R^2) = .615. It denotes a strong link between the predictors (dimensions of entrepreneurial orientation) and SMEs performance. The corrected coefficient of determination (adjusted R^2) is .607. This means that the fitted model and its predictor variables explain approximately 60.7 percent of the variance in SMEs performance. The remaining 39.3 percent could be ascribed to chance or exogenous variables not examined in the study.

Also, the overall fit of the regression model appears good, with F-statistics of 75.925 which is significant at the .05 level. This implies that the regression model fit the data at the .05 level of significance. In other words, this model accurately depicts the relationships between the dependent and predictor variables. It shows that the EO dimensions under consideration have a positive and significant impact on SMEs performance in Nigerian.

Furthermore, the results in Table 2 show that three out of five variables, namely innovativeness (Beta= .490; t=11.261; *P* < .05), proactiveness (Beta= .461; t=9.533; *P* < .05), and risk-taking (Beta= .218; t=5.435; *P* < .05) have significant influence on overall SMEs performance. However, autonomy (Beta= .028; t=.902; *P* > .05) and competitive aggressiveness (Beta= .075; t=1.552; *P* > .05) do not have significant influence on overall SMEs performance.

Also, Table 2 provides useful evidence to the fact that the predictors of product performance were: innovativeness (Beta= .187; t=2.881; *P*< .05), proactiveness (Beta= .345; t=3.832; *P*< .05) and risk-taking (Beta= .145; t=2.469; *P*< .05). Autonomy (Beta= .004; t= .045; *P*>.05), on the other hand, had a positive but insignificant contribution to product performance. As a result, while autonomy contributed positively to product performance in SMEs, it was insufficient to trigger a change in the SMEs performance model.

Further, Table 2 shows that innovativeness (Beta= .156; t=2.539; *P* < .05), proactiveness (Beta= .122; t=2.451; *P* < .05), and risk-taking (Beta= .145; t=2.469; *P* < .05) were significant predictors of market share dimension of SMEs performance. Autonomy (Beta= .066; t= -.045; *P*> .05) and competitive aggressiveness (Beta= .030; t= -.043; *P* > .05) made no significant contribution to market share.

The influence of EO on customer performance was combination of significant results (innovativeness – Beta= .368, t= 3.487, *P* < .05; proactiveness – Beta= .886, t= 8.266, *P*< .05; competitive aggressiveness – Beta= .412, t= 5.641, *P*< .05), non-significant result (risk-taking Beta= .144; t= 1.429; *P*> .05) and negative result (autonomy – Beta= -.131; t= -1.318; *P*> .05).

Interestingly there were only two significant predictors of sales performance (innovativeness – Beta= .677, t= 6.382, *P*< .05 and proactiveness – Beta= .851, t= 7.902, *P*< .05). All other

variables of EO contributed negatively (risk-taking – Beta= -.119; t= -1.170; *P*> .05; autonomy – Beta= -.067; t= -.858; *P*> .05 and competitive aggressiveness – Beta= -.065; t= -.882; *P*> .05) to sales performance. It is worthy of note that proactiveness makes the highest contribution to sales performance while competitive aggressiveness made the least contribution to sales performance.

In summary, the results imply that a percentage increase in any of the three EO dimensions that is shown to be significant and positive could stimulate proportional increase in overall SMEs performance. In other words, by increasing innovativeness, proactiveness, and risk-taking, SMEs could enhance their performance in terms of product performance, market share, customer performance and sales performance. Thus, SMEs could achieve desired level of performance by implementing series of EO practices.

Table 2: Hierarchical multiple regression analysis on entrepreneurial orientation and measures of SMEs performance

Independent variables	Dependent Variables					Remark
	SMEperf	**ProdPerf**	**MktShare**	**CustPerf**	**SalesPerf**	
Innovativeness	.490** (11.261) [.044]	.187 (2. 881) [.065]	.156** (2.539) [.062]	.368** (3.487) [.106]	.677** (6.382) [.106]	Null H1 Rejected
Proactiveness	.461** (9.533) [.048]	.345** (3.832) [.090]	.122** (2.451) [0.062]	.886** (8.266) [.107]	.851 (7.902) [.108]	Null H2 Rejected
Risk-taking	.218** (5.435) [.040]	.188** (2.221) [0.085]	.145** (2.469) [.059]	.144 (1.429) [.101]	-.119 (-1.170) [.101]	Null H3 Rejected
Autonomy	.028 (.902) [.031]	.004 (.004) [.089]	.066 (.045) [1.462]	-.131 (-1.318) [.077]	-.067 (-.858) [.078]	Null H4 Accepted
Competitive aggressiveness	.075 (1.552) [.029]	.040 (.646) [.061]	.030 (.043) [.709]	.412** (5.641) [.032]	-.065 (-.882) [.073]	Null H5 Accepted
Constant(α)	4.341	3.883	4.569	-2.463	-6.104	
F-value	75.925**	5.025**	5.550**	30.404**	111.563	
R^2	.615	.095	.104	.412	.327	
Adjusted R^2	.607	.076	.086	.400	.295	
N	1308	1308	1308	1308	1308	

*Note: ** value is significant as p < .05*
Values in first parentheses are t-scores and 2nd parentheses are standard error.

5. DISCUSSION OF FINDINGS

The pattern of results obtained here supports the general idea that entrepreneurial orientation (EO) is positively related to SMEs performance. However, while results were significant for the EO dimensions of innovativeness, proactiveness, and risk-taking, they were not significant for the dimensions of autonomy and competitive aggressiveness. Also, a critical look at Table 1 shows that there is significant relationship between the EO dimensions of innovativeness, proactiveness, and risk-taking and variable of SMEs

performance except for autonomy and competitive aggressiveness that did not correlate significant with any variables of SMEs performance. Thus, it appears, at least among SMEs in Nigeria, that the willingness of firms to discover and apply new ideas or approaches to improve products and services for market delivery; taking initiative by anticipating and pursue new opportunities related to future demand; and engaging in calculated business-related risks in the marketplace, even when their outcomes are uncertain are more important predictors of their performance than having autonomy and the propensity to aggressively compete to outperform industry rivals. This position is supported by [15,16,17,5,18]. Specifically, [15] opined that SMEs will have to be creative and bring about new ideas, processes, technology and product to be able to compete and enjoy above average return. This they say is because innovation is essential to entrepreneurship. Speaking further, [18] suggested that SMEs that typically adopts a bold posture in order to maximize the probability of exploiting opportunities; takes bold actions to achieve their goals; take calculated risks with new ideas; and put in place a structure to monitor and manage risk are more likely to enjoy enhanced all round performance This observation lends support to the conclusion of [16] who said that risk-taking influences SMEs performance. They explained that a well calculated risk-taking behaviour based on fast strategic decision-making could support business firms to take advantage of the changes in the environment to improve performance.

6. Managerial Implications

This study found that there is significant positive relationship between EO and SMEs performance. Thus, it supports the idea that EO as an organizational resource, when deployed properly, can contribute and influence performance of SMEs positively. Indeed, since EO is unique to firms, SMEs are advised to promote an entrepreneurial culture which is linked their organisational strategy, objectives and performance results in the short and long term.

Looking at individual EO dimensions side-by-side with the SMEs performance variables under study, this study has shown that not all EO dimensions have significant and positive influence on variables of SMEs performance. Specifically, the EO dimensions of autonomy and competitive aggressiveness were not significantly related to any SMEs performance variables except for competitive aggressiveness on customer performance. Thus, owners/managers of SMEs should apply the EO dimensions that best suit their firm strategic focus, taking into consideration factors like, the age and/or size of the firm, industry effect and the specific context in which the firm operates.

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