



Research Paper

## Effect of Entrepreneurial Orientation on the Performance of Small and Medium Scale Enterprises (SMES) In Selected North Central Nigeria

Adamu, Garba

Department of Business Administration, Nasarawa State University, Keffi, Nasarawa State, Nigeria

### ABSTRACT

The study investigated the effect of entrepreneurial orientation on the performance of small and medium scale enterprises in selected States in North Central, Nigeria. A survey research design was used for this study. A multi stage sampling techniques was used for the study. The population of 4,538 and a sample of 368 respondents who are the business owners or managers of the small and Medium Scale Enterprises in the study areas were used for the study. A structured questionnaire was used to collate responses from the respondents in the study areas. The data collection instrument was subjected to exploratory factor analysis and the result indicates that the instrument is valid and reliable. The collated data were analyzed using multi regression analysis while the probability values of the estimates were used to test the four hypotheses of the study. The Statistical Package for Social Sciences (SPSS) version 23.0 was used as the statistical software for data analysis. The result of the study shows that competitive strategy has a negative effect on Performance of Small and Medium Scale Enterprises in North Central, Nigeria and the effect is not statistically significant ( $p > 0.05$ ). Also, innovative strategy has a positive effect on Performance of Small and Medium Scale Enterprises in North Central, Nigeria and the effect is statistically significant ( $p < 0.05$ ). Risk taking strategy has a negative effect on Performance of Small and Medium Scale Enterprises in North Central, Nigeria and the effect is statistically significant ( $p < 0.05$ ). Proactive strategy has a positive effect on Performance of Small and Medium Scale Enterprises in North Central, Nigeria and the effect is statistically significant ( $p < 0.05$ ). It was concluded that firms attempting to compete in today's highly competitive markets, should above every other strategy be innovative. It was recommended among others that the ability to utilize the innovative skills of managers and employees of bring about enhanced performance of Small and Medium Scale Enterprises in the study areas.

**KEYWORDS:** Entrepreneurial, SMEs, Performance, North Central, Nigeria.

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### I. INTRODUCTION

Entrepreneurial orientation is a firm-level strategic orientation which captures an organization's strategy-making practices, managerial philosophies and firm behaviours that are entrepreneurial in nature. The most commonly accepted conceptualization of entrepreneurial orientation was developed by Miller (1983), who argued that the firm develops an entrepreneurial orientation if it consistently exhibits product market innovations, takes risks and behaves proactively. Miller's (1983) arguments, and the vast majority of entrepreneurial orientation literature since that time, are focused at the organizational level. Business success in any economy is not merely a function of relevant skills but also of entrepreneurial orientation and mindset. Entrepreneurial orientation indicates a way of thinking about business and its opportunities. This is formed through formal learning (of expertise law, position and policies), perception (feelings, convictions, causes, purposes, insight, impression, subconscious, observations, facts, assumptions, formulas, facts, data etc), personal experience (direct knowledge from the senses), orientation, mentorship, among others, in such a way that captures the benefits of uncertainty. It portrays the innovative and energetic search for opportunities and facilitates actions aimed at exploiting opportunities. There are a number of studies in literature that had suggested a relationship between personal attributes of an entrepreneur and the success of the firm (Ambad and Wahab, 2013). Thus an enterprise reflects the characteristics of the entrepreneur whose commitment and vision are central to small and medium scale enterprises sustainability. The entrepreneur combines both tangible and intangible resources into a business organization. The characteristics of the entrepreneur are determinants of

firm performance. Essentially, firm performance is determined by the attributes of the entrepreneur driving the process. The abilities to identify business opportunity and gathering of resources are directly related to performance. Mwangi and Ngugi, (2014), found that firm's characteristics alongside personal characteristics of entrepreneurs serve as strong preliminary determinants of their performance.

There is sometimes an erroneous conception of sustainability of business organization only as an exclusive of large corporate with sufficient funds who in order to survive in the industry invest in anything from effective public relations to improving its customers orientation and patronage so as to boost their chances of survival. What is perhaps less well-understood and documented is the range of behaviours undertaken by small and medium enterprises (SMEs), including very small entrepreneurial start-ups, some of which base their entire business rationale on sustainable principles. An entrepreneurial orientation is defined as the dimensions of entrepreneurial behaviour, along which opportunity is pursued, these consists of proactiveness, innovativeness, competitiveness, autonomy and risk taking propensity. Ajike and Nwakoby (2017) argue that any enterprise that engages in an effective combination of autonomy, innovativeness, risk taking, proactiveness, and competitiveness is entrepreneurial. Also, entrepreneurship is the process by which organizations renew themselves and their markets by pioneering, innovation and risk taking. Performance of small and medium scale enterprises is the outcome of all of the organization's operations and strategies. Firm's performance is the appraisal of prescribed indicators or standards of effectiveness, efficiency, and environmental accountability such as productivity, cycle time, regulatory compliance and waste reduction customer loyalty and customer patronage. Performance also refers to the metrics regarding how a certain request is handled, or the act of doing something effectively; of performing; using knowledge as notable from just possessing it (Mahmood and Hanafi, 2013).

This study discussed four (4) dimensions of entrepreneurial orientations namely; competitive strategy, innovative strategy, risk-taking strategy and proactive strategy. Competitive strategy adds content to entrepreneurial orientation. Competitive strategy refers to the efforts a business makes to outperform its rivals. It is the firm's propensity to directly and intensely challenge its competitors to achieve entry or improve position: to outperform industry rivals in the marketplace, this is characterized by responsiveness in terms of confrontation or reactive action (Deakins and Freel, 2012). Innovative strategy on the other hand is an important means of pursuing opportunities and so is an important component of an entrepreneurial orientation. Innovation represents a continuum ranging from willingness to try new innovations to a serious commitment to innovation. Risk-taking propensity is defined as the perceived probability of receiving rewards associated with the success of a situation that is required by the individual before he will subject himself to the consequences associated with failure, the alternative situation providing less reward as well as less severe consequences than the proposed situation. Proactive behaviour in entrepreneurship is the propensity to identify event in advance or an act that facilitate future prospect and needs rather than responding later when the incident must have been spread-out. A proactive firm is that firm that adopts an opportunity seeking prospect. Mwangi and Ngugi (2014), argued that first-mover attitude is the best approach for exploiting on a market chance. If a firm spots an opportunity and it becomes the leading firm to act upon it, it can make unusual incomes and benefit from taking such proactive steps.

This study adopts theory of reasoned action. This is because the theory relates to the variables of the study such as risk taking, proactive strategy and competitive strategy in several ways. An entrepreneur can be proactive if he/she knows that such behaviour is likely to improve higher patronage or repeat purchase from the customers of the enterprises. Also, the behaviour of an entrepreneur can be planned to coincide with the expectation of the stakeholders such as the customer. Throughout the world, shifts in population demographics, technological changes, fluctuating economies and other dynamic forces have transformed societies as never before, bringing new challenges and opportunities to the forefront. Among the responses to these shifting forces is an increased emphasis on entrepreneurship by governments, organizations and the public (International Labour Organization, 2007). Small and Medium Scale Enterprises (SMEs) play an important economic role in many countries the world over. Their activities are a source of new jobs and an important factor in a free-market economy; a significant impact on economic development and immense influence on the market (Lukes and Laguna, 2010). Hence, the concept of entrepreneurial orientation within the context of the study area is eminent. This study is borne out of the fact that the North Central Zone of the country is not considered to be inhabited by people who have the natural talent for business and entrepreneurship as compared to their counterparts in the southeastern zone. It is due to the following reasons that this study evaluates the entrepreneurial orientation and performance Small and Medium Scale Enterprises (SMEs) in selected States in North Central, Nigeria. The specific objectives are to: i) Examine the effect of competitive strategy on the performance of Small and Medium Scale-Enterprises in selected States in North Central, Nigeria; ii) Ascertain the effect of innovative strategy on the performance of Small and Medium Scale-Enterprises in selected States in North Central, Nigeria, iii) determine the effect of risk taking strategy on the performance of Small and Medium Scale-Enterprises in

selected States in North Central, Nigeria, and iv) assess the effect of proactive strategy on the performance of Small and Medium Scale-Enterprises in selected States in North Central, Nigeria.

## II. METHODOLOGY

### Research Design

This study utilized the survey method of research design. The population of the study consists of all the Small and Medium Scale Enterprises in the seven (7) North Central States namely; Benue, Federal Capital Territory, Abuja, Kwara, Kogi, Nasarawa, Niger and Plateau. Multistage sampling technique was used for the study. At the first stage, purposive sampling was used to select the study area which is North Central. At the second stage, judgmental sampling was used to select three (3) states as sample namely; Benue Nasarawa and Plateau States. The total number of SMEs in the selected North Central States is as shown in the Table below:

**Table 1: Sample Frame List**

S/No	State	Number of Medium Enterprises
1.	Benue	1,168
5	Nasarawa	1,120
7.	Plateau	2,180
	<b>Total</b>	<b>4,548</b>

**Source: NBS/SMEDAN Survey Report, 2018**

The sample size was determined using Taro Yamane 1969 formula and 368 was estimated. Both primary and secondary data were used for this study by the use of structured questionnaires techniques would be use to obtain the data.

### Validity of Instruments

The instrument for our data was subjected to factor analysis to determine its validity. A pilot test was conducted and the input variable factors used for this study were subjected to exploratory factor analysis to investigate whether the constructs as described in the literature fits the factors derived from the factor analysis.

**Table 2: KMO and Bartlett's Test**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.816
Approx. Chi-Square	7.125
Bartlett's Test of Sphericity	df
	10
	Sig.
	.014

*Source: SPSS Result Output, 2020*

Table 2 indicates that the KMO (Kaiser-Meyer-Olkin) measure for the study's variable items is 0.816 with Barnett's Test of Sphericity (BTS) value to be 10 at a level of significance  $p=0.014$ . Our KMO result in this analysis surpasses the threshold value of 0.50 as recommended in literature. Therefore, we are confident that our sample and data are adequate for this study.

**Table 3: Total Variance Explained**

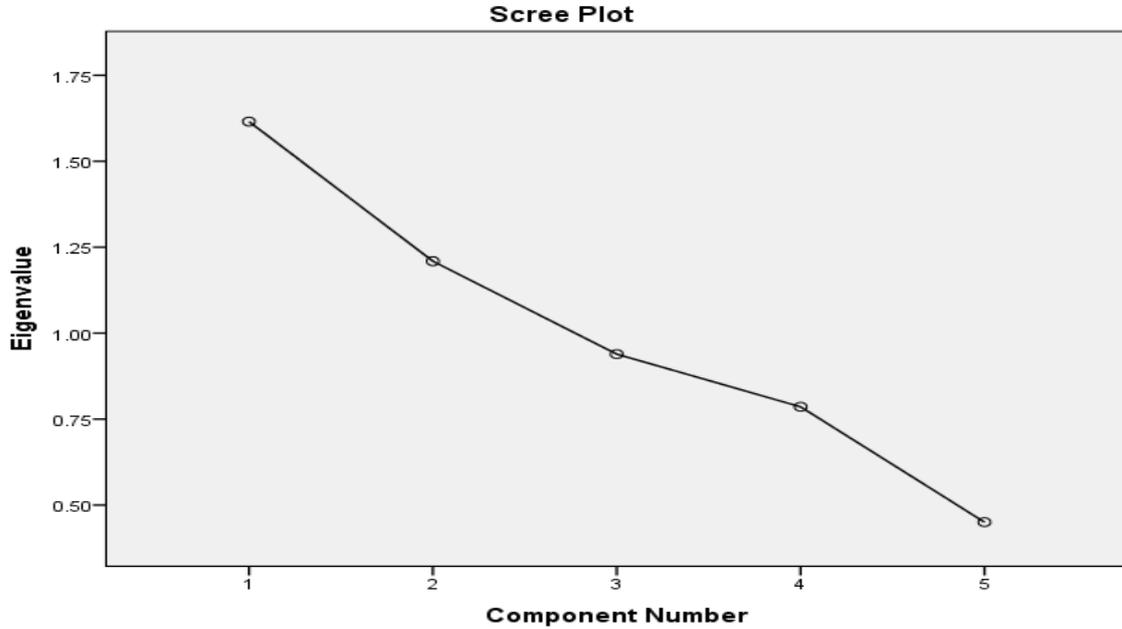
Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1.615	32.309	32.309	1.615	32.309	32.309	1.601	32.027	32.027
2	1.209	24.184	56.493	1.209	24.184	56.493	1.223	24.467	56.493
3	.939	18.780	75.274						
4	.786	15.718	90.991						
5	.450	9.009	100.000						

Extraction Method: Principal Component Analysis.

*Source: SPSS Result Output, 2020*

As shown by the table above on the section of rotated sum of squared loadings section, three components i.e component 1 and 2 accounted for 56.493 percent of the variance of the whole variables of the study. This shows that the variables have moderate construct validity which is very acceptable for social science research.

Figure 1: Scree Plot



Source: Author Computation, 2020

The Scree Plot shows the initial Eigenvalues. Note that both the scree plot and the Eigenvalues support the conclusion that the five variables used in the study can be reduced to two components. The scree plot is downward sloping and show that after the first components, differences between the Eigenvalues decline sharply (the curve flattens), and they are less than 1.0. This again supports a two components solution.

Table 4: Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.856	.941	5

Source: SPSS Result Output, 2020

Table 4 shows the reliability statistics which indicates that the Cronbach Alpha value is 0.856. Reliability Cronbach Alpha statistics of 0.70 is considered adequate and reliable for study. Hence, the variable of this study falls above the limit of a reliable instrument for this study.

Table 5: Item-Total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Squared Multiple Correlation	Cronbach's Alpha if Item Deleted
PFS	117.7000	204.221	.783	.276	.659
CPS	113.2500	147.355	.374	.094	.715
INS	115.5500	173.524	.520	.056	.649
RTS	114.9500	206.997	.800	.284	.635
PAS	121.1500	123.713	.932	.059	.546

Source: SPSS Result Output, 2020

As shown in Table 5, an item-total correlation test is performed to check if any item in the set of tests is inconsistent with the averaged behaviour of the others, and thus can be discarded. A reliability analysis was carried out on the variables of the study values scale comprising five (5) items. Cronbach's Alpha showed the



The figure above shows a histogram of the residuals with a normal curve superimposed. The residuals look close to normal, implying a normal distribution of data. Here is a plot of the residuals versus predicted dependent variable of Performance of Small and Medium Scale Enterprises (PFS). The pattern shown above indicates no problems with the assumption that the residuals are normally distributed at each level of the dependent variable and constant in variance across levels of Y.

**Table 6: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.953 <sup>a</sup>	.759	.583	5.75866

a. Predictors: (Constant), PAS, INS, CPS, RTS

b. Dependent Variable: PFS

Source: SPSS Result Output, 2020

Table 6 shows that the result of the coefficient of determination  $R^2$  for the study is 0.759 or 75.9 percent. This indicates that 75.9 percent of the variations in the model can be explained by the explanatory variables of the model while 42.1 percent of the variation can be attributed to unexplained variation captured by the stochastic term.

**Table 7: Statistical Significance of the Model I**

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	189.517	4	47.379	1.429	.027 <sup>b</sup>
	Residual	497.433	15	33.162		
	Total	686.950	19			

a. Dependent Variable: PFS

b. Predictors: (Constant), PAS, INS, CPS, RTS

Source: SPSS Result Output, 2020

The F-ratio in the ANOVA table above tests whether the overall regression model is a good fit for the data. The table shows that the independent variables statistically significantly predicts the dependent variable  $F(4, 15) = 1.429, p < 0.027^b$  (i.e., the regression model is a good fit of the data)

**Table 8: Regression Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics		
	B	Std. Error	Beta			Tolerance	VIF	
1	(Constant)	39.468	11.542		3.420	.004		
	CPS	-.168	.188	-.201	-.895	.385	.954	1.048
	INS	.260	.121	.276	2.166	.043	.945	1.058
	RTS	-.297	.139	-.485	-2.132	.050	.933	1.072
	PAS	.093	.186	.112	.498	.626	.956	1.046

a. Dependent Variable: PFS

Source: SPSS Result Output, 2020

As shown in Table 8, competitive strategy (CPS) has a negative effect on performance of Small and Medium Scale Enterprises in North Central Nigeria (PFS) and the effect is not statistically significant ( $p > 0.05$ ) and not in line with *a priori* expectation. This means that a unit increases in Competitive strategy (CPS) will cause a corresponding decrease in Performance of Small and Medium Scale Enterprises in North Central, Nigeria (PFS) by a margin of 20.1 percent. Using the probability value of the estimate, we accept the null hypothesis, that is, we accept that the estimate  $b_1$  is not statistically significant. This implies that competitive strategy has no significant effect on Performance of Small and Medium Scale Enterprises in North Central, Nigeria. Innovative strategy (INS) has a positive effect on Performance of Small and Medium Scale Enterprises in North Central, Nigeria (PFS) and the effect is statistically significant ( $p < 0.05$ ) and in line with *a priori* expectation. This means that a unit increases in Innovative Strategy (CPS) will cause a corresponding increase in Performance of Small and Medium Scale Enterprises in North Central, Nigeria (PFS) by a margin of 27.6 percent. Using the probability value of the estimate, we reject the null hypothesis, that is, we accept that the estimate  $b_2$  is statistically significant. This implies that innovative strategy has a significant effect on

Performance of Small and Medium Scale Enterprises in North, Nigeria. The findings of Mwangi and Ngugi (2014), collaborates the result of this study as the researchers found that entrepreneurial orientation attributes such as competitive aggressiveness and innovative strategy serve as strong preliminary determinants of their performance.

Risk taking strategy (RTS) has a negative effect on Performance of Small and Medium Scale Enterprises in North Central, Nigeria (PFS) and the effect is statistically significant ( $p < 0.05$ ) and not in line with *a priori* expectation. This means that a unit increases in risk taking strategy (RTS) will cause a corresponding decrease in Performance of Small and Medium Scale Enterprises in North Central, Nigeria (PFS) by a margin of 48.50 percent. Using the probability value of the estimate, we reject the null hypothesis, that is, we accept that the estimate  $b_3$  is statistically significant. This implies that risk taking strategy has a significant effect on Performance of Small and Medium Scale Enterprises in North Central, Nigeria. Proactive strategy (PAS) has a positive effect on Performance of Small and Medium Scale Enterprises in North Central, Nigeria (PFS) and the effect is statistically significant ( $p < 0.05$ ) and in line with *a priori* expectation. This means that a unit increases in proactive strategy (PAS) will cause a corresponding increase in Performance of Small and Medium Scale Enterprises in North Central, Nigeria (PFS) by a margin of 12.2 percent. Using the probability value of the estimate, we accept the null hypothesis, that is, we accept that the estimate  $b_4$  is not statistically significant. This implies that proactive strategy has no significant effect on Performance of Small and Medium Scale Enterprises in North Central, Nigeria. These findings are in tandem with those of Mwangi, and Ngugi (2014) who studied the influence of entrepreneurial orientation on growth of micro and small enterprises in Kerugoya, Kenya.

#### IV. CONCLUSION AND RECOMMENDATIONS

The study examined the effect of entrepreneurial orientation on the performance of Small and Medium Scale Enterprises in selected States in North Central, Nigeria. The study established positive and significant effect of innovative strategy as a measure of entrepreneurial orientation on the performance of Small and Medium Scale Enterprises in the study areas. The result points to a fundamental fact that for firms attempting to compete in today's highly competitive markets, the place of innovative strategy cannot be overemphasized. As shown by the result of the study, organizations with managers who have a preference for innovative activities and who are proactive are in a more favorable position to compete in a fast-paced business climate. The ability to utilize the innovative skills of managers and employees of bring about enhanced performance of Small and Medium Scale Enterprises in the study areas. It is further recommended that investment in innovative techniques of carrying out work is very important if the Small and Medium Scale Enterprises operating in the selected States in North Central, Nigeria are to make any meaningful progress in its quest to enhance its performance. Also, the management of the small and medium scale enterprises in the study areas should pay much attention to developing the skills and proactiveness of its employees as this will go a long way in improving the performance of Small and Medium Scale Enterprises in selected States in North Central, Nigeria.

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