ENTREPRENEURIAL ORIENTATION AND FINANCIAL PERFORMANCE OF NIGERIAN SMEs: THE MODERATING ROLE OF ENVIRONMENT

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ENTREPRENEURIAL ORIENTATION AND FINANCIAL PERFORMANCE OF NIGERIAN SMES: THE MODERATING ROLE OF ENVIRONMENT

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A thesis submitted
In fulfillment of the requirement for the degree of
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APPROVAL PAGE

I certify that I have supervised and read this thesis and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a thesis for the degree of Doctor of Philosophy.

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DECLARATION AND COPYRIGHT

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I hereby declare that this research is the result of my own investigations, except where otherwise stated. Other sources are acknowledged by footnotes giving the explicit references and a bibliography is appended.

Signature :..........................................

Date :.............................................

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Universiti Malaysia Sarawak
DEDICATION

This work is dedicated to my family for their endless prayers and support
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ABSTRACT

The growth and survival rate of small and medium-sized enterprises (SMEs) in Nigeria has been one of the major concerns of the policy makers, practitioners and scholars. The strategy and entrepreneurship literature suggests that an entrepreneurial orientation (EO) improves firm performance, but empirical results are mixed. In this study, we investigate how EO dimensions; innovativeness, proactiveness, risk-taking and competitive aggressiveness), affect financial performance of SMEs in Nigeria. In doing so, the study examines the moderating impact of key environmental characteristics; dynamism and hostility on these relationships. The sample used was SMEs in Kano State-Nigeria, with the following characteristics; (a) having at least 10 employees and a maximum of 300 workers, (b) small and medium-sized enterprises, (c) standing alone, not a subsidiary or branch companies (d) and based in Kano State Nigeria. The respondents were the owner/managers of SMEs in the study area. A total of 352 owner/managers participated in the research. Data collected were analyzed, utilizing multiple regressions and hierarchical multiple regression analysis implemented in SPSS version 17, statistical program. Our findings indicate, that hypotheses 1-4 are supported, while hypotheses 5-11 are partially supported except for that regarding the moderating impact of environmental dynamism on the proactive-performance relationship, which was not found to be significant. These findings demonstrate that EO dimensions alone are not a significant determinant of financial performance for SMEs in Nigeria; it is being influenced by environmental dynamism and hostility. The implications of these findings for both researchers and managers are also discussed. The study contributes to the expanding field of EO research and provides additional insight into the strategic behavior of firms in a variety of environmental contexts.
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CHAPTER 1

INTRODUCTION

1.1 Introduction

This chapter presents an introduction to the current study titled; “Entrepreneurial Orientation and Financial Performance of Nigerian SMEs; The Moderating Role of Environment”. The chapter is organized as follows; Section (1.2) background of the study; Section (1.3) problem statements; Section (1.4) research questions; Section (1.5) research objectives; Section (1.6) significance of the study; Section (1.7) scopes of the study; Section (1.8) definitions of key terms; and Section (1.9) organization of the study. Each of these subjects will be discussed in detail taking into consideration the nature of previous studies conducted in the same field. This will help to position the study in its proper context and demonstrate how it intends to build upon existing literature on entrepreneurship, specifically entrepreneurial orientation, and firm financial performance. The chapter will also address the contribution of this study to the existing literature on entrepreneurship.

1.2 Background of the Study

Small and medium sized enterprises (SMEs) represent an important part of the economies of both developed and developing countries. They are recognized as a pivot on which economic growth, job creation, poverty reduction and industrial development can be built (Ogechukwu, 2008; Okpara, 2011; Terungwa 2012). SMEs development are essential in the growth strategy because of their “ability to respond to the systematic shock rapidly and their potentials to generate jobs and income at the time when the large firm sector was undergoing a rapid decline” (Krasniqi & Hashi, 2011, p. 456). Nigeria, like many developing countries has also recognized the importance of SMEs as a catalyst for economic development and
poverty alleviation. Although it is difficult to accurately measure the impact of SMEs on the Nigerian economy due to dearth of records, it has been estimated that SMEs account for 97% of all businesses in the country. They employ over 50% of the nation’s workforce and contribute about 46% to the Gross Domestic Product (National MSME collaborative survey, 2010; Taiwo et al. 2012).

Despite their contribution to the National Economy, fast-changing and intense worldwide competitive environment have placed Nigerian SMEs in a vulnerable position. To deal with these challenges, previous research findings have suggested entrepreneurial orientation (EO) as a key ingredient for organizational success and have been found to lead to higher performance (Wiklund and Shepherd, 2005). It is further argued that firms that possess higher levels of entrepreneurial orientation will perform better than those with lower levels of entrepreneurial orientation (Davis, 2007; Rauch, 2009). Higher level of entrepreneurial orientation allows firms to have the ability to identify and seize opportunities in a way that differentiates them from non-entrepreneurial firms (Covin et al. 2006). Entrepreneurial orientation represents strategy making processes that provides organizations with a basis for entrepreneurial decisions and actions (Rauch & Wiklund, 2009). It encompasses specific organizational-level behavior to perform risk-taking, self-directed activities (autonomy), engages in innovation and reacts proactively and aggressively to outperform the competitors in the marketplace and hence enhances firm performance (Lumpkin and Dess, 1996). However, autonomy construct will not be included in the present study, given its limited application and the minimal amount of data available for its evaluation.

The external environment of the firm has also been recognized as an important determinant of entrepreneurial orientation (Davis, 2007). The external environment not only offers new
opportunities but also poses complex challenges, to which firms must respond creatively (Covin & Slevin, 1991; Zahra, 1991). Environmental conditions are usually assessed in terms of whether the environment is munificent (favorable) or hostile (unfavorable). In the EO literature the munificent environment is usually conceptualized using four dimensions: environmental dynamism, technological opportunities, industry growth and demand for new products; hostile environments comprise unfavorable change and competitive rivalry (Antoncic & Hisrich, 2004).

While literature in entrepreneurship has theorized the positive relationship between EO and performance, the same has not always been true, when examining this relationship empirically. Interestingly, a handful of research findings have revealed insignificant and sometimes negative correlations between EO and performance (Rauch et al. 2009; Kaya & Seyrek, 2005). By simply examining the direct EO-performance relationship, the scope on performance is limited (Rauch et al. 2009). This urges researchers to control for both internal and external contingent factors in the examination of the EO-performance relationship (Lumpkin & Dess, 2001; Wiklund & Shepherd, 2005; Covin, Green & Slevin, 2006).

Past literature on entrepreneurship discusses a number of variables that potentially moderate the EO-performance relationship. There is little consensus on what constitutes suitable moderators. Findings related to the influence of moderating variables on the EO-performance relationship have been mixed. For example, prior research has found both significant positive (Zahra & Garvis, 2000) and negative (Rauch et al. 2009) relationships between environmental hostility and EO. While there are many possible explanations for a lack of consistency in findings related to a moderating variable, this does leave cause for concern and demands scholarly attention providing more conclusive evidence of the impact these variables have on the strength and direction of the EO-performance relationship.
An examination of the literature reveals that a great deal of research on EO performance relationship has been conducted. However, these studies were based in the West. Specifically, a coherent research linking four EO dimensions (innovativeness, proactiveness, risk-taking and competitive aggressiveness) with firm performance where environmental dynamism and hostility act as moderators’ variables is disappointingly scarce in Nigeria. Since very little research has been conducted on this study in Nigeria, undeniably, there is a knowledge gap in the understanding of this issue with regard to the Nigerian environment. This study is therefore an attempt to address knowledge gaps in the existing literature and to propose a conceptual framework for the inter-relationship of entrepreneurial orientation and firm performance.

1.3 Problem statement

The importance of small and medium sized enterprises (SMEs) in the economic development of both developed and developing countries has long been recognized. As noted by Premaratne, (2002, p.1), “it has become difficult to speak of economic development without considering the role of small scale enterprises”. SMEs have ability to generate jobs and income and have potentials to respond to the systematic shock at the time when the large firm sector was undergoing a rapid decline (Krasniqi & Hashi, 2011). However, irrespective of country, SMEs face common problems which impair both their performance and survival rate. Some statistics suggest that the failure rate of small businesses in their first five years is more than 50 % (Reiss, 2006). In Nigeria, even though there is lack of accurate figures published, however, it is estimated that the failure rate for SMEs in their first three years stands at 70% (Akingbolu, 2014). Previous studies have indicated that the reason for the massive failures of SMEs in Nigeria, are due largely to lack of entrepreneurial competencies among the founders and those who hold key positions in the organizations (Kiggundu, 2002).
To curb the increasing numbers of SMEs failures in Nigeria, it is important to find an appropriate strategy in order to improve their performance. Scholars have theorized that entrepreneurial orientation contribute to firm performance (Hult et al. 2004; Kraus et al. 2005; Keh, Nguyen & Ng, 2007; Kreiser & Davis, 2010). Entrepreneurial orientation represents the policies and practices that provide a basis for entrepreneurial decisions and actions (Rauch et al. 2009). Although majority of the researchers have agreed that EO contributes to better firm performance, the link between EO and firm performance has remained inconsistent (Lumpkin & Dess, 1996). A number of scholars have established strong correlations between EO and firm performance (Covin & Slevin, 1988; Wiklund & Shepherd, 2003; Hult et al. 2004; Kreiser & Davis, 2010). Other studies have reported weak relationship (Zahra, 1991; Dimitratos et al. 2004; Baker & Sinkula, 2009). Numerous studies found these relationships to be contingent on the environmental context in which the business operates (Lumpkin & Dess, 2001; Kreiser, Marino & Weaver, 2002a; Kraus et al. 2012; Martins & Rialp, 2013). There are also studies which have failed to find a positive relationship between EO and firm performance (Covin et al. 1994; George et al. 2001; Tang & Koveos, 2004).

However, most of these studies were conducted in the west, were the business environments are fundamentally different from that of the developing countries, like Nigeria. Despite a large body of literature that has empirically studied the effect of EO on firm performance, research involving EO (innovativeness, proactiveness, risk-taking and competitive aggressiveness) and performance relationships with environmental dynamism and hostility as moderators’ variables still appears to be limited in scope in Nigeria. Considering the gaps in the previous studies and literature, more focused research is still needed in this field of study.
1.4 Research Questions

In line with the aforementioned problems, this study seeks to establish the following research questions to investigate:

i. How does the degree of entrepreneurial orientation (innovativeness, pro-activeness, risk-taking and competitive aggressiveness) affect financial performance for Small and Medium-Sized Enterprises in Nigeria?

ii. How do environmental moderators, dynamism and hostility influence the relationship between entrepreneurial orientation and financial performance for SMEs in Nigeria?

1.5 Research Objectives

Main Objective

The main objective of the Study is to investigate the relationship between entrepreneurial orientation (innovativeness, pro-activeness, risk-taking and competitive aggressiveness) and financial performance for small and medium-sized enterprises in Nigeria and to determine the moderating influence of the environmental variables; dynamism and hostility on this relationship. The specific objectives are:

1. To determine whether entrepreneurial orientation (innovativeness, proactiveness, risk taking and competitive aggressiveness) affect financial performance for SMEs in Nigeria,

2. To assess the relationship between environmental characteristics; dynamism and hostility and financial performance for SMEs in Nigeria,
3. To determine the moderating impact of these environmental variables on the link between entrepreneurial orientation and financial performance for SMEs in Nigeria.

1.6 Significance of the Study
This study makes a significant contribution to a new stream of entrepreneurship and entrepreneurial orientation literature by developing an integrative model that combines several EO dimensions of Innovativeness, Pro-activeness, Risk-taking and competitive aggressiveness, with environmental factors such as dynamism and hostility, thereby extending the prior models to inform our understanding on these interactions. As argued by Short et al. (2008), entrepreneurship study and in particular the concept of entrepreneurial orientation still has much to benefit from configurationally research. In addition, the study anticipates that its findings may be valuable to consultants and managers of SMEs to better understand the key factors that should be encouraged in order to improve the performance of SMEs in Nigeria. The findings of the study may help the policy makers on how to develop industrial policy to achieve economic growth. This research will also add to the existing body of knowledge on EO – performance relationship. The study will serve as a valuable reference in future research in the field of entrepreneurship.

1.7 Scope of the Study
This study examined the relationship between entrepreneurial orientation and financial performance of SMEs in Nigeria, using environmental dynamism and hostility as moderator variables. The research respondents comprises of owners/managers of SMEs registered with National Association of Small Scale Industries (NASSI), National Association of Small and Medium-Sized Enterprises (NASME), Corporate Affairs Commission and Manufacturers Association of Nigeria (MAN) with the following characteristics; (a) having at least 10 employees and a maximum of 300 persons; (b) Small and Medium Sized Enterprises (SMEs)
(c) standing alone, not a subsidiary or branch companies; (d) and based in Kano State-Nigeria; and that any business organization short of the above requirements will not be included in the study.

1.8 Definitions of Key Terms

Entrepreneur: Refers to an individual who establishes and manages business activities for the purposes of profit making (Slotwinski, 2010).

Entrepreneurship: It is an activity that involves the creation of wealth, creation of enterprise, creation of innovation, creation of change, creation of employment, creation of value and creation of growth (Morris et al. 2008).

Entrepreneurial Orientation: It is the decision making styles, practices, processes and behaviors that lead to entry into new or established markets with new or existing goods and services (Kraus et al. 2012).

Environmental Dynamism: This refers to the rate of change and innovation in an industry as well as the uncertainty or unpredictability of the actions of competitors and customers (Davis, 2007).

Environmental Hostility: It is the scarcity of resources available in the environment, as well as the intensity of competition for the resources which are available (Davis, 2007).

Performance: Refers to a measure of how well an organization is managed and the value the organization delivers for customers and other stakeholders (Wu & Zhao, 2009).
**Market share growth:** It is an increase in the percentage of the total sales of a given type of product or services that is attributable to a given company (Mueller et al. 2012).

**Return on Assets (ROA):** it is an indicator of how profitable a company is relative to its assets (Aktan & Buhut, 2008).

**Return on Sales (ROS):** Refers to a ratio widely used to evaluate a company’s operational efficiency (Aktan & Buhut, 2008).

1.9 **Organization of the Study**

This study has been structured into six chapters in order to achieve the research objectives. Chapter (1) Introduction: presents the background of the study, highlights the research problems, the objectives of the study, both broad and specific, research questions, and significance of the study, scope and outline of the study. These items are also discussed in detail in order to contextualize and justify the data collection and analysis method chosen.

Chapter (2) Literature Review; this chapter reviews relevant empirical and associated research, concerning key issues in the present study. These issues include entrepreneurial orientation, environmental characteristics and financial performance, in order to determine how much research has been conducted on EO and firm performance, utilizing environmental dynamism and hostility as moderator’s variables. The chapter also provides an overview of SMEs in Nigeria.

Chapter (3) Conceptual Framework, and Hypotheses Development; the study builds on the literatures review in chapter 2, to develop the study’s conceptual model that provides foundation for the research hypotheses: (a) The direct relationship between four EO dimensions of innovativeness, pro-activeness, risk-taking and competitive aggressiveness and
financial performance, (b) The moderating influence of environmental dynamism and hostility on the link between these four EO dimensions and firm performance. The chapter also explores Mile and Snow Typologies, Contingency and Resource – Based View theories as the theoretical foundation on which the study will be anchored. Chapter (4) Research Methodology: presents the methods used for data collection in the current study. The chapter provides detailed explanation concerning the research design, sampling plan, questionnaire development, data collection procedures, data analysis techniques, scale reliability and validity, operationalization of independents, dependent and moderator’s variables employed to test the study hypotheses.

Chapter (5) Data Collection and Analysis; presents detailed information concerning the type of data analysis technique used in this study. This includes clarifications of the methodology of analysis such as survey pretest, data collection and survey responses, response bias assessment, common method variance assessment, treatment of missing data, test of outliers, Multicollinearity, normality test, descriptive statistics, correlation analysis, factor analysis, scale reliability analysis, entrepreneurial orientations scale, external environment scale. The chapter concludes with the presentation of results from the simple Regression and Hierarchical Multiple Regression Analysis implemented through SPSS version 17.0, statistical program. Chapter (6) Discussion and Conclusions; is presented concerning the findings obtained and the implication of the study’s findings, limitations, research contributions with regards to managerial, practical and theoretical aspects while useful areas for future research are also highlighted.