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Small and Medium Enterprises in the Emerging Economies: Does Entrepreneurial Orientation Matters?

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***Abstract*---** Small and Medium Enterprises (SMEs) are famous for the role they play in economic development of nations and regions in particular. Hence attention of scholars, researchers, government and non-governmental officials is drawn to it. However, the SMEs in Nigeria suffer serious setback, and great failure rate in the recent times are noticed.

Purpose: The study is purposely to examine relationship between Entrepreneurial Orientation (EO) and SMEs performance in Northeast region of Nigeria which is known for its high poverty level and general backwardness, coupled with serious insecurity of lives and property due to the activities of Boko Haram.

Methodology/materials: The data was collected from a sample of 300 owner/managers of SMEs in Northeast Nigeria using questionnaire on a Likert scale of 1-10. These data were tested for validity, normality and common method bias using SPPS. The analysis obtained 0.089 Cronbach's Alpha value and Kolmogorov value less 0.05. Hence, the validity, normality and the AVE requirement were met. Mean and Standard Deviation were used to describe the data, and hypotheses tested using partial least squared method in SmartPLS 3.

Finding: Hypothesis (H_1) i.e. innovativeness was not supported, but the remaining two proactiveness and risk taking (H_2 and H_3) were supported.

Implications: This implies that innovativeness of SMEs in the region does not influence the firm performance. But proactiveness and risk-taking ability of SMEs in the region boosts performance.

Originality: Most EO studies suggest that environment determines relationship between EO and SMEs performance; and interestingly, overwhelming major of such studies were concentrated in developed nations. Hence, this current study examines EO-SMEs performance relationship in backward performing region of Nigeria with different environmental background.

***Keywords*---** Innovativeness, Entrepreneurial Orientation, Small and Medium Enterprises, Owner/managers and Emerging Economy.

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I. INTRODUCTION

In the context of the developed economies, a lot have been written with regards to Entrepreneurial Orientation (EO) and performance of Small and Medium Enterprises (SMEs). Very little however is known of the emerging economies scenario. Most findings from the researches involving EO and firm performance relationship were reported to be determined by the condition or environment the firms operate. Such studies were carried out in developed economies which cannot be a reflection of what is currently ongoing in the less developed countries which is characterized by unconducive business environment. Hence, there is a dearth of literature focusing on the developing countries. This study offers to contribute to the scanty literature available in this field targeting the emerging economies. A research carried out by [1] indicates that entrepreneurial orientation factors of a firm i.e. innovativeness, pro-activeness and risk-taking seem to be binding factors in SMEs performance in Bangladesh.

Notwithstanding the benefits of SMEs, one major problem remains that the degree of failure of SMEs' in Nigeria and particularly in the Northeast of Nigeria are quite alarming and distressing, especially bearing in mind the role of SMEs' in sustaining highly competitive economies [2] cite in[3]. SMEs in Nigeria and particularly in the Northeast of Nigeria have in the recent time recorded low growth and very low performance. [4] This situation has been aggravated by the high level of poverty and illiteracy that has eaten deep into the society. This is quite disturbing as level of unemployment expected kept rising resulting to several social vices e.g. political thugs, kidnappings, terrorist groups emerging, bandits and so many other problematic issues arising from lack of employment. Businesses lose their capital and reputation, staff loss their jobs, while government loses revenue through company income tax.

The objectives of this research are therefore two folds: first, it is to examine the extent to which EO relates to the performance of SMEs in an environment characterized by abject poverty and serious security threat to lives and property. Secondly, to examine the individual dimensions of the EO and how they relate to the SMEs performance in this poor and highly unsecured region of Nigeria.

II. EO, EO DIMENSIONS AND SMES PERFORMANCE

[5] believe that early [6] EO footing become the foundation block on which EO dimensions: innovation, proactivity, and risk taking emerged and adopted by[7]. [8] decided to improve on the study by presented two more dimensions namely: competitive aggressiveness and autonomy [9] The EO consists of organisation's skills and experience that mirrors decision-making ability that firm engages in, virtually and hostilely initiated to change the position of their competitive advantage regarding their competitors' activities. The study is adopting EO as a unidimensional construct consisting of three dimensions namely: innovativeness, proactiveness and risk taking. Most studies reported positive significant result of the relationship between EO and SMEs performance. However, as the relationship is hinging on the business environment where the research is conducted, it is appropriate to look at what actually happens in the case of a region known for poverty and backward in all aspect of life including educational, economical and politically. Many scholars concluded that the direct effect of EO on the SMEs performance has often been bogus and unclear because many parameters may have an indirect effect on this

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relationship. [10] Additionally, so many researches resulted in an inconsistent finding. In this regard, the hypothesis below is formulated to guide the investigation.

H_1*: There is significantly positive relationship between EO and SMEs performance in Northeast of Nigeria.*

2.1 Innovativeness

Innovativeness is being looked at and being analysed from the following viewpoints: product innovation, process innovation, organisational innovation, marketing innovation, radical or incremental innovation, administrative or technological innovation [11] cited in [12]. The current study looked at product, process, technological and marketing innovations. Innovation is cost intensive in most cases [13], cited in [12]; and this scare away managers for fear of achieving negative cost benefit analysis. This can affect the managers decision to innovate particularly in business environment in the Northeast of Nigeria which is less developed and having high rate of poverty. In this regard, their innovation does not increase patronage to warrant cost benefit advantage. But because most studies propose positive effect of innovation on SMEs performance [14,15]; thus, the following hypothesis is formulated:

H_2: There is positive significant relationship between Innovativeness and SMEs performance in Northeast of Nigeria.

2.2 Proactiveness

Proactiveness characterises dynamic and first moving oriented business, comprising firm's capability hovering strategically above their competitors in getting ahead, any forthcoming changes [16]. Proactiveness entails prompt action initiative process, in which case owner/managers need to possess talent of managing and dealing in risky transactions, exact and truthful operation, and swift retort to condition needing attention [17, 18]. [19] explain proactiveness as firm's engagement in high level search for opportunity which in the real sense, put them above competing firms. Proactivity also refers to willingness to pursue ideals as the business come across it [20]. Hence, they begin to anticipate forthcoming patronage [21], advocate that businesses need to possess tactical reactivity and sensitivity to confront changes which frequently happen in uncertain in a dynamic business environment. From the forgone explanation, it is obvious that the proactive dimension of EO equips the owner/managers of business to be ready for any unforeseen contingency which could be opportunity or a threat to use it to boost their performance. This leads us to the hypothesis below:

H_3*: There is significant positive relationship between proactiveness and SMEs performance in Northeast of Nigeria.*

2.3 Risk taking

This refers to the firms' willingness or otherwise to venture into a business project that is seeming highly-risky but with high-return possibility. According to [22] and [23], *"*risk-taking behaviour refers to the firms' willingness to seize opportunity under the uncertain business environment". Risk taking is therefore the business ability to identify business opportunities and exploits such available ideas applying different ways to achieve superior performance [20]. SMEs whose creativity motivated them to generate novel product lean towards taking strategic managerial policy, e.g. first to sell, presenting novel and exclusive products, plus assuming systematic risks [24].

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When fund is invested in SMEs, the owners/managers expect maximum benefits to accrue on this decision to investment, hence developing their disposition in risk-taking related to such investment opportunity [25]. The result might be connected typically to mechanisms of assumptions that are of owner/managers' self-centredness, e.g. returns, costs, and risk associated with such venture [26]. In the light of the above, the current research wants to find out if the risk-taking option by the SMEs can positively increase the chances of the owner/managers gaining competitive edge. This leads us to formulate the hypothesis below:

H_3: There is significant positive relationship between the risk-taking and the SMEs performance in Northeast of Nigeria.

III. METHODOLOGY AND ANALYSIS OF DATA

The study adopts survey method in gathering data. There were 35 items in the questionnaire for the first time. But after sending it to experts, their reviewed and suggested the removal of 4 questions and merger of 5 others. Hence, there remain 24 items in 1-10 likert scale which constitute the entire items for the study. 300 owner/managers across the Northeast were selected and issued the questionnaires to respond to. The collated data will be analyzed using the PLS-SEM 3 application since the data are not normally distributed [27]. Tested for normality in SPSS, the measurement and the Structural Equation modeling will be suitable in analyzing for common method variance, validity and reliability of the data. The hypotheses of the study will be tested using the structural equation modeling.

Normality test was done to justify which statistical tool will be the perfect fit as each tool has its own assumptions. The current study is adopting the Kolmogorov Smirnov[a] and Shapiro-Wilk measurement method to detect the normality of the data. Data are said to be not normal if the Kolmogorov and Shapiro-Wilk statistically p-value does not exceed 0.05 alpha value. The data are said to be normal if the significant p-value is more than 0.05. The current data has Kolmogorov and Shapiro-Wilk value less than 0.05 and so the data are not normal. Table1 shows the normality conditions of the data to be used for this research.

Table 1: Normality test

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
SME Performance	.203	259	.000	.854	259	.000
SME Performance	.210	259	.000	.887	259	.000
SME Performance	.202	259	.000	.896	259	.000
SME Performance	.195	259	.000	.878	259	.000

a. Lilliefors Significance Correction

The data were tested for discriminate validity. As can be seen in the table below, each item has on its corresponding column value greater than those of the remaining items running under same column. That is, innovativeness with of 0.825 is greater than all the remain values in that column, and the same case for all the

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remaining variables. This means that the data have meet the validity test requirement for running analysis. The same thing goes for the remaining collinearity results of the other constructs; see table 2 below:

Table 2: Structural Estimate

Construct	INN	PR	RT	SMEP
Innovativeness	**0.825**			
Proactiveness	0.576	**0.776**		
Risk Taking	0.506	0.591	**0.811**	
Business Performance	0.518	0.608	0.654	**0.783**

3.1 Innovativeness measurement model

There are four (4) items of instrument that measure innovativeness, and the table 6 shows the model assessment with indictors measuring the construct in the analysis conducted. The analysis of the second order construct indicates that the 4 items measuring the construct obtained a loading of 0.7, this is depicting an acceptable loading. In the same vein, the construct has got a satisfactory score of more than 0.7composite reliability (CR). The (CR) score suggest reliable measurement model as it has about the minimum value of 0.7 displayed on table 3.

Table 3: Measurement Models of Innovativeness

Construct	Item	Factor Loading	CR	AVE	Alpha	rho_A
Innovativeness	QINN1	0.782	0.895	0.681	0.843	0.848
	QINN2	0.848				
	QINN3	0.855				
	QINN4	0.812				

3.2. Proactiveness measurement model

The test of hypothesis for the proactiveness construct and firm performance relationship has all the factory loading exceeding the threshold of 0.70. The CR and the AVE all attained their threshold. This therefore means that the data are good enough to be analysed using the SEM. See the table 4 below:

Table 4: Measurement Models of Proactiveness

Construct	Item	Factor Loading	CR	AVE	Alpha	rho_A
Proactiveness	QPR1	0.720	0.858	0.603	0.780	0.786
	QPR2	0.791				
	QPR3	0.790				
	QPR4	0.801				

3.3. Risk Taking measurement model

The analysis for the Risk-taking construct relationship with the SMEs performance is found to be good as the factor loading are 0.8 and about which are all high than the normal rule of thumb threshold of .0.7. See table 5 below.

Table 5: Measurement Models of Risk Taking

Construct	Item	Factor Loading	CR	AVE	Alpha	rho_A
Risk Taking	QRT1	0.822	0.885	0.658	0.826	0.827
	QRT2	0.800				
	QRT3	0.861				
	QRT4	0.760				

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IV. STRUCTURAL EQUATION MODELING ANALYSIS

Having tested for the measurement model, there data were found to be ready for SEM analysis. This is because all the CR, AVE, collinearity etc. have met the required threshold. PLS will be used in testing hypotheses since the data are not normally distributed and they are not too many [27]. Find below the test of the hypothesis.

4.1 Testing hypotheses

The hypotheses of the study were tested using the PLS-SEM. Path coefficient were estimated for the direct relationship between the three dimensions of EO and the EO as second order vis-à-vis SMEs performance. The direct EO-SMEs performance relationship denoted by null hypothesis H_1 which state that 'there is significant positive relationship between EO and the SMEs performance in North east of Nigeria and was supported with path coefficient Beta of 0.758 and p-value of 0.000 and t-value of 24.243 which is greater than 1.96; as can be seen in the table 6 below:

Table 6: Structural estimates (Direct Effect/E. O -> SMEP)

No.	Path	Beta (β)	T-Value	p-value	Decision
H_1	E.O -> Business Performance	0.758	24.243	0.000	Supported

Notes: Critical t-values. *1.96 (P < 0.05)

4.2 Structural estimate of Direct effect of the individual dimensions

The path coefficient for each of the three dimensions was estimated and each is represented by a hypothesis. Hence, the first dimension is innovativeness and firm performance i.e. H_2 which states that 'there is significant positive relationship between innovativeness and SMEs performance in North-east of Nigeria.' This hypothesis was not supported. It has Beta value of negative -0.019, t-value of 0.285 which is less than one, and p-value of 0.775 which is higher than 0.05. See table 7. The second dimension is proactiveness and SMEs performance H_3 which state that: there is significant positive relation between proactiveness and SMEs performance in northeast of Nigeria. This hypothesis is supported. Its beta value is 0.181 with t-value of 2.407 which is greater than 1.96 and a p-value of 0.016 which is less than 0.05. The third dimension is risk taking and SMEs performance. The hypothesis is H_4 which it states that 'there is significant positive relationship between risk taking and SMEs performance in the Northeast of Nigeria' this hypothesis is supported. It has beta value of 0.129, t-value of 1.974 which is greater than 1.96 and a p-value of 0.016. see table 7 below:

Table 7: Structural estimates (Direct Effect/Relationship)

No.	Path	Beta (β)	T-Value	p-value	Decision
H_2	Innovativeness -> Business Performance	-0.019	0.285	0.775	Not Supported
H_3	Proactiveness -> Business Performance	0.181	2.407	0.016	Supported
H_4	Risk Taking -> Business Performance	0.129	1.974	0.042	Supported

V. DISCUSSION OF FINDINGS

Under this section, the research findings will be robustly discussed to bring out clearly their implications on the businesses, owners/manager, and other stakeholders. Also, the findings relating to the three dimensions of the EO will be discusses and the implications of such findings on stakeholder.

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5.1 EO – SMEs

In this research, performance relationship between the EO and SMEs was found to be positive. This implies that SMEs who have great deal of orientation about entrepreneurial activities perform well above their competitors. That is to say that, they take risk and succeed while their competitors might not be able to; they get prepared all the times for any unforeseen contingencies i.e. they are proactive while their competitors aren't. Lastly, they remain resolute on issues to do in pursuance of innovativeness. According to the following researches, [28,29,30,31,32,33,34] the relationship between the EO and SMEs performance is positive. In this case, the result of analysis of the first hypothesis which state that there is significant positive relationship between EO and SMEs performance is consistent with these finding mentioned above. But the finding is however not consistent with the findings of [35]

5.2 Innovativeness and SMEs performance

SMEs performance is found to be related to innovativeness by many researchers. The firm's ability to have innovative drives with regards to novel products, original market discovery and penetration, new process form the basis for achieving superior performance by SMEs; and this is attained by cultivating strong competitive edge and remain stronger than their competitors in business [36]. Sometimes, innovation does not relate significantly positive to SMEs performance. For instance, [37] found no significant nexus between firm performance and innovation based on non-technological ones. However, they got significant positive connection between business performance and technologically oriented innovations. Regrettably, innovational technologies require huge capital which SMEs find it difficult if not impossible to afford. This study also could not achieve significant positive connection existing between the SMEs and innovativeness (see table 7); this is because not every firm can afford the innovations that are technologically oriented as it is capital intensive. This implies that SMEs in the region finds it cumbersome to attain superior performance through innovation. Rationally, this result is apt considering the worth of the businesses in terms of finances. Hence, firms cannot obtain technological innovation and thus, they rely heavily on non-technological innovation basis which hardly warrants great performance [37].

In related development, [38] realized that there is no direct influence of management innovation on business performance. [39] also obtained a negative relationship between EO and firm performance during 'reverse internationalization' by Chinese SMEs. These results reinforced the findings by [37] and both studies concurred and supported the recent research findings that innovation by SMEs in the Northeastern Nigeria does not enhanced firm performance. Conversely, research by [40] got insignificant effect of innovativeness on performance of manufacturing firms in Oman. The respondents of research are manufacturing firm, hence, depicting similar scenario with findings of [40].

5.3 Proactiveness and SMEs performance

The analysis conducted using PLS-SEM provided that relationship between proactiveness SMEs performance significantly do exist. Thus, Proactiveness have a positive influence on Business Performance according to the findings of the current research. The analysis generated R value of 0.181, which exceeds threshold of 1; t value was also significant at 2.407 which is greater than the threshold of 1.96 and p = 0.016 is less 0.05 threshold. (β=-0.181, t=2.407; p <0.05). Hence, it evidently suggests that if a business responds sharply to an unforeseen contingency to

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either opportunity or threat in business environment, the higher will be the likelihood that such firm will assume a strategic competitive edge which grants the firm a great performance over any competitor. This result is consistent with common findings in numerous studies on proactiveness and performance of SMEs. For instance, [41] got positive and significant relationship between proactiveness and firm performance in Bangladesh. In related development, [39] got positive nexus between EO and the SMEs performance in a study of some Chinese firms during 'reverse internationalization period.' According to [39], reverse internationalization describes the extraction of exported goods from international markets back to internal local market at the period of financial crises. As EO and firm performance relationship hinges a great deal on environment, during the reverse internationalization, the international environmental condition compels the manufacturers to sell their products in the local market.

5.4 Risk taking and SMEs performance

Risk taking is essential factor of the EO dimension. Hence, one of the research objectives is looking at the relationship it has with firm performance. This is reflected under hypothesis H_4, and it states that significant positive connection between risk taking and the performance of SMEs exist. The SEM analysis supported the hypothesis with ($p < 0.042$), See table 7; indicating a positive relationship amongst risk taking and performance of SME in the region. Therefore, it can be concluded that those companies who love to take calculative risky project impact positively well on the SMEs' performance in the region. This finding is very much consistent with the study of [8,41,42].

5.5 Conclusion

The study of EO and SMES performance relationship over the years have majorly shown positive result. However, most of the studies were conducted in developed nations with good business environment. In the opposite, most result conducted in the developing countries provides negative relationship. Thus, the current result shown negative relationship between the innovativeness and the firm performance owing to the fact that the majority of the businesses don't have enough capital and financial sources to raise capital needed for capital intensive demand for instituting technology innovation which is the basis of every innovation. Furthermore, the business environment in the developing countries are less conducive due to lack of infrastructure such as power sources, portal pipe borne water supply, roads network, good telecommunication networks among others. These hamper the smooth-running implementation of some reasonable strategies to benefit the businesses.

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