

IMPACT OF STRATEGIC ORIENTATIONS ON PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES: THE ROLES OF ENTREPRENEURIAL ORIENTATION IN PROMOTING ECONOMIC DEVELOPMENT

Tope Samson Abiodun 

Kwararafa University, Wukari, Taraba State, Nigeria
samsontope@yahoo.com

Mohammed Isa Kida

Kwararafa University, Wukari, Taraba State, Nigeria

Abstract

This study re-examined the previous research conclusion regarding the appropriateness of adopting strategic entrepreneurial orientation and its potential impact on performance of small and medium enterprises. Having employed PLS-SEM on data collected from 201 SMEs in Nigeria, the result of the study shows that entrepreneurial orientation statistically significant and positively related to performance of SMEs. The result of this study clearly shows SMEs are likely to benefit from strategic orientation, particularly from pursuing entrepreneurial orientation which demonstrates the relevance of entrepreneurial orientation in research. This re-established the fact that entrepreneurial orientation is a rare, hard to duplicate, hard to imitate and valuable asset of firm that can always be employed as source of competitive advantage.

Keywords: Strategic Orientations, Entrepreneurial Orientation, SMEs, Organizational Performance

INTRODUCTION

The global economy faces a number of significant challenges that could hamper a genuine upturn after the economic recession, this development coupled with the risk of weak recovery in advanced economies such as Europe and America, and more importantly, the slowdown in economic growth of countries like China, India and emerging market, it has become herculean task to know which country can drive growth and employment creation in the short to medium terms (Schwab, 2013). Consequently, it remains critical for countries to establish the fundamentals that underpin economic growth and development for the long term.

The attraction and interest of Small and Medium Enterprises' (SMEs) have been increased across the globe (Ayyagari, Beck and Kunt, 2003) as economic booster. It constitutes the vast majority of business establishment in the world today. The existence of these enterprises is usually felt in all the sectors in any given economy. Developing and developed economies have benefited immensely from SMEs' contributions to GDP and national growth (Analoui & Karami, 2003). In Nigeria SMEs constitute more than 90% Of the enterprises in the country (Ogunsiji, 2010). The roles of SMEs have been seen as power of expansion in any economy (Ayanda & Laraba, 2011), job creations at relatively low capital cost, means of livelihood, provision and development of trained and untrained labour for potential industrial growth and the breeding ground for managerial and entrepreneurial talents (Okpara & Kabongo, 2009).

However, SMEs in Nigeria face monumental challenges such as weak strategic orientations, poor infrastructure, inadequate capabilities, poor management, inadequate technological skills' development and lack of export market knowledge/experience (Adegbite, Ilori, Ireferin, Abereijo, & Aderemi, 2007). Responses to this critical situation culminated to yearly budgetary allocation, favorable policies, favorable pronouncement incentives and regulations giving by local government, state government and federal government in order to diversify the revenue base (Oyefuga et al., 2008).

A study carried out by Manufacturing Association of Nigeria (MAN) showed that just about 10 percent of industries run by its members are completely in operation. The vast majority of SMEs die before their first to five year of operation, while some disappear within sixth and tenth year of existence and the remaining ones that grow to maturity are less than five to ten percent (Onugu, 2005). Moreover, the bulk of researches on strategic orientations and firm performance focus on large established firm (Corner & Wu, 2012). Many of these researches focus on firms operating in western developed economies and little is known about strategic orientations and their relationship with SMEs performance in transition economies (Li & Liu, 2012). As such, little is known about development of SMEs and many questions remain

unanswered and in need of attention (Cadogan et al. 2012; Sapienza, Autio, George, & Zahra, 2006).

Nonetheless, several findings have suggested that an organization that employs proactive strategic orientations achieve superior performance and expansion than those that employ traditional/conservative strategic orientations (Baker & Sinkula, 2007; Okpara & Kabongo, 2009b). While some studies (Matsuno et al., 2002; Morgan & Strong, 2003; Slater & Narver, 2000; Smart & Conant, 1994) found a negative relationship between strategic entrepreneurial orientation and firm performance. In the same vein, some studies like Lumpkin and Dess (2001), Dimitratos *et al.* (2004) and Lee, Lee, and Pennings (2001) reported a significant low relationship between firm performance and entrepreneurial orientation.

Therefore the basic objective of this study is to add to the limited number of empirical studies that have systematically explored strategic orientations and re-examine the appropriateness of the research conclusion of significant statistically relationship between entrepreneurial orientation and SMEs' performance.

STRATEGIC ORIENTATIONS

Strategic orientations are description of how resources allocation and coordination patterns are brought into, embedded, adopted, and/or enacted at some level within the firm. Here, the term orientation is described as firm's tendency to adopt particular norms, and acts or function in specific way (Cadogan *et al.*, 2012). Several attempts have been made to capture a frame of mind of the term orientation that managers employ in strategic development process. For instance, a manager may be described as having buffering orientation when faced with volatile or hostile environment, coping orientation when self assurance is absent, adaptation, and innovation when manager is aggressive, and neurotic personality when manager is unstable (Wood & Robertson, 1997). However, the strategic management literature have produced a body of research that focuses on the identification and understanding of firm strategic orientations within and across industry that are used to examine the relationship between strategy and performance (Avci, Madanoglu, & Okumus, 2011).

The fundamental principle or assumption underlying strategic orientation hinges on the belief that substantive strategy underpins strategic actions (Lau & Bruton, 2011). Strategic orientation has long been believed to influence the degree to which strategies within an organization are coherent or assertive. Strategic typologies; prospector, defender, analyzer and reactor (Ramaswamy, Thomas, & Litschert, 1994). while comparative approach to strategic orientation seeks to evaluate strategy by way of multiple traits or dimension that are general to all organization (Morgan & Strong, 2003). Venkatraman (1989b) Conceptualized strategic

orientation into six dimensions: aggressiveness, analysis, defensiveness, futurity, proactiveness and riskiness.

The phenomenal research interest in the broad notion of strategic orientations emerged as a consequence of observing firms' preferences, behavior and performance outcome, which bring into examination construct like market orientation, cost orientation, technological orientation, sales orientation, entrepreneurial orientation, learning orientation, and market orientation (Cadogan et al., 2012). This study examined entrepreneurial orientation of Small and Medium Enterprises in one of developing countries in (Nigeria).

Entrepreneurial Orientation

Entrepreneurial orientation is a culture of innovativeness, proactiveness, risk-taking, competitive aggressiveness and autonomy (Lumpkin and Dess 1996). Entrepreneurial firm is a firm that involves in product sort of innovation, always undertake risky types of ventures, and always the foremost to come up with hands-on and proactive innovation, defeat and beat competitors to a punch (Miller, 1983). This idea influenced and shaped the subsequent studies on EO (Covin & Slevin, 1989), and these three dimensional conceptualization of EO are generally accepted in the literature. However, Lumpkin and Dess (1996) suggested another two additional dimensions that are really critical to EO's perception; autonomy and competitive aggressiveness. Nevertheless, some scholars considered this approach to EO as narrow to new entry and perceived the first three dimensions as wider approach since entry can only be understood as one part of entrepreneurial tradition, and such firm may not be eligible to be called an entrepreneurial firm (Barrett & Weinstein, 1998; Stevenson & Jarillo, 1990). This study builds on Covin and Slevin (1989), that merged the three dimensions of entrepreneurial orientation together as one unidimensional construct for the purpose of parsimony.

More importantly, Resources Based View considers strategic orientations (entrepreneurial orientation) as rare, valuable, inimitable and non-substitutability resources of the firm that is heterogeneously distributed, however imperfectly and static in nature (Barney, 1991). Environmental turbulent is the external environment of the firm that determines the strategic orientations (strategic fit) that firm employs to identify opportunity and positions itself for competitive advantage. Therefore, for small and medium enterprises to succeed and have sustainable competitive advantage would depend on its ability to find its feet to the varying environment through the support of tactical and strategic orientations (entrepreneurial orientation).

Entrepreneurial Orientation (EO) and SMEs' Performance

The relationship between entrepreneurial orientation and SMEs' performance in the literatures reviewed in this study suggested that EO is the key to achieve competitive advantages which in return always stimulate profitable performance (Zhara & Covin 1995; Colvin & Wiklund 1999). Therefore, being proactive, innovative, and risk taking would definitely lead to superior performance (Lumpkin & Dess, 1996a). The proposition of statistically significant relationship between SMEs' performance and EO can be established on the following: First, prime mover advantage implied by EO (Wiklund, 1999; Zahra & Covin, 1995), where Pro-activeness, innovativeness and risk taking enable a firm to transform its economic performance (Naman & Slevin, 1993). However, some studies (Matsuno et al., 2002; Morgan & Strong, 2003; Slater & Narver, 2000; Smart & Conant, 1994) found a negative relationship between entrepreneurial orientation and firm performance. In the same vein, some studies like Lumpkin and Dess (2001), Dimitratos *et al.* (2004) and Lee, Lee, and Pennings (2001) reported a significant low relationship between firm performance and entrepreneurial orientation. Nevertheless, the complex, unpredictable and turbulent nature of SMEs' environment encourage and provide better avenue for higher performance (Balabanis & Katsikea, 2003). Adopting strategic EO in SMEs would boost SMEs' performance (Knigh & Cavusgil, 2004). Thus, being entrepreneurial oriented would enhance the performance of small medium enterprise because it can be used as a tool to drive growth objective and exploit untapped opportunity (Baker & Sinkula, 2009), and being entrepreneurially postured would assist SMEs to achieve success. Therefore the following hypothesis is posited:

H: There is a significant relationship between Entrepreneurial (EO) and performance of SMEs

Measures of Entrepreneurial Orientation

The vast majority of studies related to EO used only proactiveness, risk taking and innovativeness (George & Marino, 2011) which are version of the scale suggested by Covin and Slevin (1989). Moreover, Jantunen *et al.* (2005) realized that the three dimensions are closely related through the composite measure constructed as an average of all nine items which resulted in reliability coefficient of .74. The guidelines regarding composite reliability considered this satisfactory (Nunnally, 1978). Hence, this study adapted the nine items' measure of Covin and Slevin 1989 for parsimony and reliability.

Measures of SMEs' performance

The measurement of SMEs' performance has not been universally suggested among the scholars of SMEs' researchers, for that reason, no particular measure that single out or

specific construct's definition that dominate the field on how firm performance should be measured. Several studies have suggested multidimensional measures (Okpara & Kabongo, 2009b; Zou *et al.*, 1998). The unit of analysis is another issue with firm performance, several studies in the literature employed corporate level as the unit of analysis (Katsikea *et al.*, 2000). Nevertheless, this approach seems problematic (Cavulsigil and Zou 1994; Morgan *et al.*, 2004; Katsikea *et al.*, 2000). The mode of assessment most especially objective versus subjective measures constituted another issue. Some studies used objective measures while others employed subjective measures. Several scholars have contended that even though subjective evaluation of firm performance could cause problems, yet they could be more valid in measuring the long term aspects of firm performance and concerning the mode of performance objective measure could influence strategic management decision making and actions (Katsikea *et al.*, 2000). This prompted Morgan *et al.*, (2004) to empirically draw a relationship and established correlation between firm performance and subjective measure of firm performance.

Zou, Taylor and Osland (1998) addressed the three critical issues in determining SMEs performance, their scale EXPERF was multidimensional and really centered on performance of SMEs. It was built on Cavusgil and Zou (1994) and comprises three basic dimensions that are rooted in firm performance's literatures; financial, strategic and satisfaction' performance measure. The nine items adapted from Zou *et al.*, (1998) are used to measure SMEs' performance in this study because they reflect economic and non economic factor that could easily show the performance of SMEs.

RESEARCH METHODOLOGY

A questionnaire survey was carried out among a population of SMEs in Nigeria. The sample of this study was selected from the population sampling frames; Manufacturing Association of Nigeria (MAN). From this directory, about five industrial sectors were selected. This followed the guidelines/criteria for SMEs (Storey, 1994). The directory provides the name, telephone and fax number of the executives/officers of SMEs as well as necessary information about their firms, such as, the address, industry, product and services offer. This directory was also used in the previous study (Okpara & Kabongo, 2009a). About 2200 firms were identified as qualified because they met the criteria specified. To select a sample size for the population of 2200, Krejcie and Morgan (1970) sample size determination's table was used. The table showed that 331 sample sizes would be required for the population of 2200 and additional 40% of 331 was added making 457 sample sizes.

Proportionate stratified and systematic sampling were employed and the distribution of the questionnaires was based on the proportion of population of SMEs' manager in each

geographical area and systematic selection of the respondents from the list of SMEs' directory in order to ensure representative distribution. Systematic sampling (4.81 intervals) was used to select SME's managers and emailed the questionnaires to their respective email address. About twenty five days after the questionnaire have been emailed to the respondents, 118 completed questionnaires were received through e-mail and these 118 questionnaires were regarded as early responses which were further used to assess non response bias on the actual variables. In order to improve the response rate, a follow-up phone calls and series of Short Message Service (SMS) were sent to remind the SMEs 'managers who were yet to return their questionnaires. This effort yielded the largest numbers of response compared to the first response. About 120 questionnaires were returned. It was tagged as late responses which were later used to assess non-response bias.

Out of 457 questionnaires that were emailed to the selected respondents, a total of 238 were returned, out of these, 2 were not usable due to excessive missing data, 2 were completely eliminated due to their selection of option 'services/government' and not 'manufacturing' as primary area of business, 2 were also removed for selection of option 'total cost of business that above #200,000,000' specified as a criteria for SMEs and 2 were also eliminated due to low level of knowledge on the topic of interest, remaining 230 useable questionnaire. Hence, the response rate was calculated as 50% which is sufficient for the study. Sekaran (2003) suggested 30% response rate which is less than 50% realized in the study.

ANALYSIS

In this study 29 Multivariate outliers were detected while using Mahalanobis distance. In order to ensure the accuracy of the data analysis technique, all these outliers were deleted from the dataset. The final data set for the study remained 201. The Present study also used histogram and normal probability to make sure that normality assumptions were not violated. The data collected for the present study reflects normal pattern since all the bars on the histogram were closed to normal curve. Hence, a proof that normality assumptions were not violated. This study conducted an independent- samples t-test to ensure that non response bias is not a major problem. The result of the test showed that the equal variance significance values for each of the five main study variables were greater than the 0.05 significance level of Levene's test for equality of variances suggested by (Pallant, 2011). Thus, it could be concluded that non response bias was not a major concern in the present study.

The present study employed PLS path modeling (Wold, 1985), particularly PLS 2.0 M3 software (Ringle, Wende, & Will, 2005), to assess and test the theoretical model. The suitability of PLS-SEM is based on the fact that the nature of the present study to some extent required

explorative tool to extend some of the constructs used in the study, for instance dynamic capabilities views are being extended as reconfiguring capabilities. PLS-modeling has also been suggested as prediction oriented for an extension of any existing theory (Henseler, Ringle, & Sinkovics, 2009).). Against this background, the present study employed a two step process to calculate and report the result of PLS-SEM path as suggested by Henseler, Ringle and Sinkovics (2009). These two -step processes are (1) the assessment of measurement model and (2) the assessment of a structural model.

Assessment of Measurement Model

In this study the model estimation delivers the empirical Measures of the relationship between the indicators and the constructs (measurement model). The PLS –SEM algorithm in the first stage in Figure 1 is that all the constructs scores are estimated to determine items reliability, internal consistency, convergent validity and discriminant validity. The individual items reliability could be seen in the examination of the outer loading of each construct's measure in Figure 3.1(Hair J. F., Hult, Ringle, Sarstedt, & 2013). The indicators with outer loadings between 0.40 and 0.70 are retained, while some items below the threshold of 0.40 are deleted (Hair et al., 2013). About 6 items are deleted out of 35 items. The remaining 29 items are retained as they have loadings that range between 0.484 and 0.971. Internal Consistency Reliability is extent at which all items on particular scale are measuring the same concept (Sun et al., 2007). Hence, this study employed composite reliability to ascertain the internal consistency of the measures adapted. In table 3.1 the composite reliability of each construct ranges between 0.858 and 0.9207 which is considered satisfactory (Bernstein & Nunnally, 1994) and AVE of each construct ranges between 0.5479 and 0.7948 which is also sufficient above the .50 threshold. This means internal consistency has been achieved in the present study. Table 1 depicts the items loadings, composite reliability and average variance extracted of the present study

Table 1: Items Loading, Composite Reliability and Average Variance Extracted

Constructs	Items	Loading	AVE	Composite R.			
Entrepreneurial orientation	EOO01	0.6968	0.5479	0.858			
	EOO04	0.7122					
	EOO05	0.7987					
	EOO06	0.7098					
	EOO07	0.7654					
	EOO08	0.7768					
	EOO09	0.7781					
	Satisfaction performance	SAT01			0.9382	0.7948	0.9207
		SAT02			0.869		

	SAT03	0.8654		
Strategy performance	STG01	0.6995	0.6883	0.8675
	STG02	0.8998		
	STG03	0.8752		
Financial performance	FIN01	0.6995	0.6924	0.8702
	FIN02	0.8998		
	FIN03	0.8752		

The square root of the average variance extracted ranged between 0.8104 and 0.8553 which were all greater than the correlation among the latent constructs, signifying sufficient discriminant validity (Chin, 1998; Fornell & Larcker, 1981). Table 3.2 shows the square root of the variance extracted and correlations of the latent variables.

Table 2: Square Root of Average Variance Extracted and Correlations of the latent Variables

Latent Constructs	1	2	3	4
Entrepreneurial O.	0.8104			
Satisfaction	0.5355	0.8915		
Strategy	0.5661	0.6482	0.8296	
financial	0.4955	0.5833	0.6976	0.8553

Note: Diagonal elements (figures in bold) are the square root of the variance shared the constructs and their measures while off diagonal elements are the correlations among constructs.

The effect size of the exogenous construct on endogenous construct is large with F squared of 0.5043. The cross validated redundancy for endogenous variables is 0.2247 which is greater than zero and considered to have predictive relevance (Henseler et al., 2009). Standard bootstrapping procedure was used with a number of 5000 bootstrap samples and 201 cases to assess the significance of the paths (Henseler et al., 2009; Hair et al., 2013). Figure 3.3 depicts the use of bootstrapping to assess the significance of the path coefficients and Table 3.3 shows the result of the structural model.

Table 3: The Result of the Structural Model

H	Relationship	beta	Standard Error	T.Value	P. value
H	Entrepreneurial O.->SMEs' P.	0.5713	0.0811	7.0453	0.00

***P<0.00

DISCUSSION

The finding of this study indicates that the relationship between the two constructs of the study (strategic entrepreneurial orientation and SMEs performance) has positive performance implication. By statistical standards, EO is significantly related to SMEs' performance (t=

7.0453, $p=0.00$), the effects of EO on performance can be regarded as moderate (large Cohen 1977). This relationship is consistent with some earlier studies (Baker & Sinkula, 2009; Balabanis & Katsikea, 2003; Boso *et al.*, 2012; Calantone *et al.*, 2006; Cavusgil, 1984; Lechner & Gudmundsson, 2014; Wiklund & Shepherd, 2003; Zahra & Covin, 1995) which suggested relationship exists between entrepreneurial orientation and firm performance. The argument for the statistically significant relationship between SMEs' performance and EO was based on first prime mover advantage of EO (Zahra & Covin, 1995). Pro-activeness, innovativeness and risk taking were expected to facilitate a firm to transform its economic performance (Naman & Slevin, 1993). Strategic EO in SMEs could improve SMEs' performance (Knight & Cavusgil, 2004). The finding of this study supports the idea that EO as strategic orientation are of equal importance in explaining SMEs' performance.

CONCLUSION

The potentials of SMEs and opportunities to carry out the roles of engine of growth, poverty reduction, generation of an employment, development and industrialization are not mirage but possible if there is a pattern shift of focus instead from primordial tendency of noisy pronouncements to a realistic thorough approach to recognize problems. This study subscribed to the literatures that acknowledged that the problems of SMEs are not only finance but more importantly, managerial ineptitude (Onugu, 2005; Oguniji, 2010). Strategic entrepreneurial orientation has significantly impact on SMEs' performance, which denotes that entrepreneur who identify new combination of productive resources within the firm and extend the frontiers of capability, and connecting several ventures with different resources and enhance the ongoing adaptation of SMEs would improves overall innovation management that would enable the firm to reconfigure its resources and provide way to experiment new idea and subsequently achieve and sustain competitive advantage. Firms should also be proactive, innovative, and strategic and take measure of calculated risk to improve SMEs performance. Managers should recognize that their ability to adapt to external environmental changes is only the key driver to sustain SMEs' performance. Hence, skills should be honed to spot growth options from other development initiatives, executing reconfiguring option required different operating capabilities that have to be reconfigured, coordinated and integrated for maximum competitive advantage of SMEs.

The result of this study clearly shows SMEs are likely to benefit from strategic orientation, particularly from pursuing EO which demonstrates the relevance of EO in research. In other words, EO influences outcomes that are relevant to wide set of management scholars and to managers. The utilization of resources whether incentives given by the government or

generated by the owner must be optimally leveraged. Even though developing entrepreneurial culture seems to be costly they will result in benefits to firms operating in turbulent environment like Nigeria (Jantunen, 2005), this study makes contribution to the literature of strategic management, particularly, SMEs in Nigeria which is believed to be under researched. Hence, SMEs should be innovative, aggressive, proactive and take calculated risk to survive in Nigeria turbulent environment; the promoter/manager should think less on funding in the successful development of his enterprise but rather ready to learn and develop learning capabilities so that they can improve their capacity to achieve and sustain competitive advantage. Owner managers of SMEs should embrace science and technical education; they should practice partnership and equity participation SMEs should maintain quality in production, they should honor payment obligations, management staff of SMEs should be developed.

LIMITATIONS AND SUGGESTIONS FOR FUTURE STUDIES

This study is not without its limitations; first, it was conducted within one of developing countries, Nigeria. There would be serious implication in making general inference from this explorative study and caution must be taken in concluding that the outcomes of the study are valid for all entrepreneurial SMEs in general. As such, the findings should be validated at different setting to find whether the findings apply to SMEs in different countries and emerging markets. Moreover, a longitudinal research would be more appropriate in reducing bias resulting from respondents considering the problems they are facing, since the findings are cross-sectional in nature. There is a need to have evidence of continuity and stability of the observed relationships which can be achieved through generation of longitudinal approach. As such design might be more appropriate to investigate strategic orientations as it might take some periods before this orientations affect SMEs' performance (Kohli & Jaworski, 1990; Noble, Sinha, & Kumar, 2002a; Zahra & Covin, 1995).

Moreover, it would be of interest to adopt more fine-grained approach to examine the relationship between two or three strategic orientations (i.e. innovation orientation, market orientation or employee orientation) and SMEs' performance in order to achieve different results. Similarly, firm performance is used as dependent variable, its three components; financial, strategy and satisfaction (Zou & Stan, 1998), are used to examine SMEs' performance, future study might consider some other measures like economic related measures or market related measures or product related measures.

Nevertheless, this study has contributed to strategic management and entrepreneurial literature on performance of SMEs; in addition to the theoretical contributions the findings of this study provide some important practical implications to SMEs, managers and policy makers.

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