

FACTORS INFLUENCING SMALL AND MEDIUM ENTERPRISES' PERFORMANCE

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Abstract

The purpose of this pilot study is to examine the few sample data on the influence of entrepreneurial orientation, social network, human capital and competitive advantage on the performance of SMEs in Nigeria. Thus, content and face validity, reliability and structural modelling were also examined. Base on the revised version by expert, few data from 77 respondents were collected and analyzed using Partial Least Squares (PLS) path modeling. The result reveals that the instruments are valid and reliable. The path coefficient results showed that entrepreneurial orientation, human capital and competitive advantage are positively related to business performance. The results also demonstrated a non-significant relationship between social network and business performance.

Keywords: Entrepreneurial Orientation, Social Network, Human Capital, Performance

INTRODUCTION

Performance is among the most significant dependent variable for researchers concerned with almost all areas of management (Richard et al. 2008), for the reason that it explains how well an organization is doing (Obiwuru, Okwu, Akpa, & Nwankwere, 2011). Koonts and Donnell (1993) In all aspects of strategic management and management field, the term performance is not new (Aminu & Shariff, 2015). For example, performance assessment or evaluation, performance

management and performance measurement are frequently used in various field of business and or management science. Nevertheless, there is no one best accepted definition of performance, it depends on the area and specialties of the person defining it. SMEs performance has been studied by a number of researchers in several literatures and they concentrated mostly on examining causes of performance, in which relatively many variables were recognized as the factors influencing SMEs performance. Organization performance is defined as the ability of a firm to realize its objectives such as high profits, good financial outcomes, good quality products, a large market share, and long-term survival, using relevant strategies for action. it is an indicator of how well a firm realizes its objectives (Ho, 2008).

Richard et al. (2008) defined organizational performance as encompassing three specific areas of organization outcomes: financial performance, product market performance and shareholder return. Based on the study of Lusthaus, et al. (2002) business performance can be defined in terms of the following elements: effectiveness refers to the ability of the organization to attain its objectives Vis-à-vis those competitors in the same market, eg. Sales growth and market share. Efficiency: accuracy, how economically the organization can turn resources/inputs into results, financial viability: ability to nurture required funds and relevance: adaptive to the stakeholders and its environment. Tangen (2003) argue that organizational performance measures as metrics selected to measure the efficiency and/or effectiveness of an accomplishment/achievement by the business organization. Business performance can be measured quantitatively or qualitatively (Augustine, Bhasi, & Madhu, 2012). In other words, it can be measured either by looking at economic variables or non-economic variables (Leitao & Franco, 2008).

Several studies on business performance use a number of organizational resources to measure performance of SME's. Some of the factors include, social capital, short term debt, total quality management, IT usage, learning orientation, social network, innovation and Entrepreneurial orientation (Colvin, Green & Slevin, 2006; Lucky, & Minai, 2011; Witt, 2004; Bueno & Ordonez, 2004; Fornoni et al, 2012; Al- Swidi & Mahmood, 2012; Augustine et al. 2012; Ibrahim & Sherif, 2015).

Nevertheless, studies have revealed that entrepreneurial orientation can influence the performance of SME's (Fatoki, 2012; Lechner & Gudmundsson, 2012; Mutlu & Aksoy, 2014; Polat & Mutlu, 2012; Tang & Tang, 2012).

On the other hand, social network is becoming a popular subject in entrepreneurship literature (Watson, 2012). Studies in the field of entrepreneurship have found Networking as an important and influential tool by which entrepreneurs use a wide variety of contacts to help them achieve their business and professional objectives and it gives them greater access to

information, resources, new clients and people with similar business interests and contribute to the establishment, development and growth of small firms (Shaw & Conway, 2000; Ascigil & Magner, 2009; Barnir & Smith, 2002; Hoang & Antoncic, 2003; Partanen, Möller, Westerlund, Rajala, & Rajala, 2008; Westerlund & Svahn, 2008). Empirical literatures clearly indicates that social capital, or the resources that entrepreneurs may access through their personal networks (Adler and Kwon, 2002), allows entrepreneurs to identify opportunities (Bhagavatula et al., 2010), mobilize resources (Batjargal, 2003), and build legitimacy for their firms (Elfring & Hulsink, 2003).

Similarly, several studies consider human capital as variable that influence SMEs performance (Colombo & Grilli, 2005; Davidsson & Honig, 2003; Chliya & Lombard, 2012; Rosa; Carter & Hamilton, 1996; Learner & Almor, 2002).

A number of studies used competitive advantage in investigating firm performance (Hao, 2000; Tovstiga & Tulugurova, 2009; Mahmood, & Norshafizah, 2013; Martinette & Obenchain-leeson, 2012). In addition, since SMEs are not operating in a vacuum, an encouraging business environment and healthy overall economic situation as a whole are good predictors of performance (Huang & Brown, 1999; Smit & Watkins, 2012). SMEDAN (2012), argued that, harsh business conditions and other environmental factors are other issues affecting SMEs' development and performance. However, to ensure the content validity and internal consistency of the measures, there is need to investigate the reliability and validity of the construct in different environments, economies and context at large before conducting the main survey.

A pilot test was conducted in this study because of two important reasons, firstly, to test the validity and reliability of the survey instruments. Secondly to get a glimpse of the real conditions of the impact assessment, which allows the researcher to anticipate potential problems and adjust when embarking on the actual research. Among the primary concerns of the pilot is the validity and reliability of the instrument. According to Sekaran and Bougie (2010) validity measures the extent to which an instrument is measuring what it should be measuring, while the reliability measures the degree to which an instrument is free from error, consistent and stable across various items of the scale. For this purpose, this paper presents the result of the pilot test about determinants of SMEs performance in Nigeria.

Gay, Mills and Airasian, (2006) point out that a pilot test is well thought-out to be like "a outfit preparation" in which a little scale trial of the study is carry out earlier to the complete study. Thus, we carried out pilot study in order to achieve some objectives, which include: to test the validity and reliability of the instrument of the research, and to get a nearby into the real situation of the main study. Therefore, this would let the researcher to predict and correct

possible problem during the full study. Among the main worry of pilot test is the instrument validity and reliability. Validity of the measuring instrument is the extent to which the instrument is measuring what it is supposed to measure and not something else. Reliability of a measure on the other hand, indicates the extent to which an instrument is error free and thus, consistent and stable across time and also across the various items in the scale (Sekaran & Bougie, 2010). To this end, the paper presents the result of pilot test with regard the influences Entrepreneurial orientation, social network, human capital and competitive advantage on business performance in the context of the Nigerian Small and medium enterprises.

METHODOLOGY

The survey research design was adapted in this study to find out reliability and validity of the instrument. The study assessed the opinion of owner/managers of SMEs about their enterprises (Fisher, 2010). According to Fink, (2003), pilot test Sample tests are usually small, even though it is normal to be increased to about 100 responses. Therefore, total of 80 questionnaires were randomly distributed personally and only 77 were returned and correctly filled.

Self-administered questionnaire was use because it helps the researcher to create more understanding with the respondents while introducing the survey. It also serves as the way of making clarifications to the respondent instantly, and the response rate can be high since the collection of the questionnaires is immediate. (Sekaran & Bougie, 2010)

Closed-ended questionnaire was used as method of data collection.in addition, closed-ended questionnaire is among the reliable data collection instrument widely used. It encourage the respondents to make a choice fast and easy, and is easier for the researcher to code the data for further analysis (Sekaran & Bougie, 2010). A well prepared questionnaire comprising of closed ended multiple choice-questions were used for the study. Given that mainly of the items in the questionnaire are besieged to measuring the respondents' perceptions. Therefore, Likert-type scale is viewed as the most suitable and reliable (Alreck & Settle, 1995; Miller, 1991).

Furthermore, the items of the questionnaire were measured on five-point Likert scale. 6 of the questionnaire had not been correctly filled, so only 77 were used for analysis. In this study content or face validity was conducted to ensure the validity of the items on the face of it is measuring the intended construct. Also, the study conducted reliability test, however, there are different statistical methods of testing reliability. To this end, this study use PLS SEM to test the reliability and validity of the measures.

The key factors contained in the study are: Entrepreneurial orientation, social network, human capital, competitive advantage and business performances. All the constructs/variables are uni-dimensional part A: consists of a set of eight questions that seek to measure the level of

SME's performance. Part B: consists of nine questions targeted at measuring entrepreneurial orientation on SME's performance. Part C: comprised seven questions to measure the extent of social network on performance perceived by the respondents. Part D: contains five items that are directed to measure the human capital on performances. Part E: contains twelve items that are directed to measure competitive advantage on performances. Finally, Part F: Consists of questions about the demographic facts of the respondents. Only the significant items that will be used in answering the research questions are included in the questionnaire. Additionally, responsive questionnaire are not included in order to obtain high response rate (Sekaran & Bougie, 2010).

ANALYSIS AND RESULTS

Measurement Model

In an attempt to determine the accuracy of measure, reliability and validity methods are employed, we find out the construct validity using two major step modeling method as proposed by Anderson and Gerbing (1988). Firstly, we evaluate the convergent validity and the reliability of the constructs as shown in Table 1 and Table 2 respectively. Construct validity is determined if the loadings are more than 0.7, composite reliability co-efficient is more than 0.7, average variance extracted is greater than 0.5. (Nunnally, 1978; Bagozzi, et al, 1991; Gefen, 2000; Fornell & Larker, 1981; Hair, et al. 2010).

Figure 1: Measurement Model

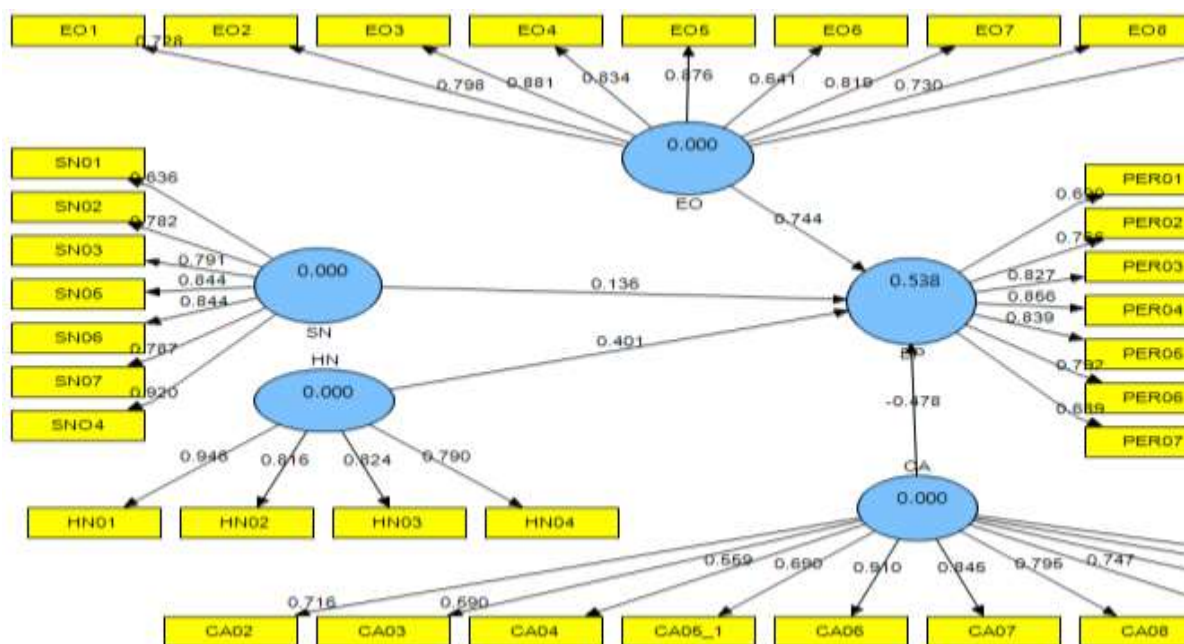


Table 1: Cross Loadings

LATENT VARIABLES	BP	CA	EO	HN	SN
CA02	0.3414	0.7159	0.5691	0.6824	0.5213
CA03	0.2833	0.5896	0.6325	0.2501	0.3353
CA04	0.2219	0.5593	0.4186	0.4462	0.4231
CA05_1	0.1438	0.6897	0.451	0.4562	0.4454
CA06	0.3409	0.91	0.6018	0.6087	0.6449
CA07	0.214	0.845	0.6208	0.4393	0.6364
CA08	0.2592	0.7946	0.6527	0.4344	0.5815
CA09	0.4611	0.7467	0.7025	0.5268	0.8041
CA10	0.0202	0.6143	0.2337	0.2314	0.3831
CA11	0.3145	0.5894	0.4792	0.2345	0.5378
CA12	0.5112	0.7053	0.5169	0.4339	0.5617
EO1	0.4073	0.5682	0.7278	0.2697	0.3086
EO2	0.3731	0.6435	0.7984	0.2702	0.6624
EO3	0.5611	0.7203	0.8808	0.361	0.6519
EO4	0.6817	0.725	0.834	0.5324	0.6214
EO5	0.5667	0.7398	0.8765	0.4768	0.6356
EO6	0.4062	0.7193	0.6407	0.6381	0.5722
EO7	0.4319	0.6154	0.8188	0.3574	0.5743
EO8	0.5722	0.467	0.7299	0.1728	0.5293
EO9	0.2856	0.2767	0.6027	-0.0112	0.4997
HN01	0.67	0.5595	0.5126	0.9461	0.6584
HN02	0.1876	0.563	0.2697	0.8157	0.4278
HN03	0.3441	0.749	0.5068	0.8241	0.7144
HN04	0.3033	0.3351	0.1274	0.7902	0.3567
PER01	0.6902	0.2086	0.2528	0.3981	0.4144
PER02	0.7657	0.2106	0.3694	0.2843	0.3574
PER03	0.8275	0.3488	0.4398	0.3929	0.4241
PER04	0.856	0.5344	0.5688	0.3819	0.5624
PER05	0.8392	0.4625	0.6903	0.5692	0.5628
PER06	0.7922	0.3578	0.5987	0.4157	0.3107
PER07	0.6889	0.4668	0.4386	0.3797	0.4486
SN01	0.0769	0.5389	0.5815	0.1914	0.6357
SN02	0.2089	0.6084	0.5724	0.4159	0.7819
SN03	0.4647	0.7062	0.7017	0.5	0.7914
SN05	0.4061	0.6821	0.5851	0.4848	0.8435
SN06	0.3909	0.6288	0.525	0.5921	0.8436
SN07	0.6309	0.6358	0.5811	0.6351	0.7871
SNO4	0.5378	0.6763	0.6257	0.6253	0.9204

Table 2: Reliability and Validity of Constructs

LATENT VARIABLES	INDICATORS	AVE	Composite Reliability
BP	7	0.6124	0.9166
CA	12	0.5093	0.9177
EO	9	0.5982	0.9296
HN	4	0.716	0.9094
SN	5	0.6474	0.9271

Second, we performed a discriminant validity of the construct following the Fornell and Lacker's (1981) recommendation. On the basis of this recommendation, the average variance shared between each construct and its measures should exceed the variance shared between the construct and other constructs. As presented in Table 3 above, the correlations for each construct is less than the square root of the average variance extracted suggesting adequate discriminant validity of the construct (Hair, et al. 2010; Hair, et al.1998 34, 35).

Table 3: Latent Variable Correlations

LATENT VARIABLES	BP	CA	EO	HN	SN
BP	0.784				
CA	0.484	0.714			
EO	0.645	0.602	0.773		
HN	0.530	0.641	0.463	0.846	
SN	0.566	0.795	0.729	0.668	0.804

Hence, it can be concluded that the instrument adapted in this study are reliable.

Figure 2: Results of the Structural Model Analysis

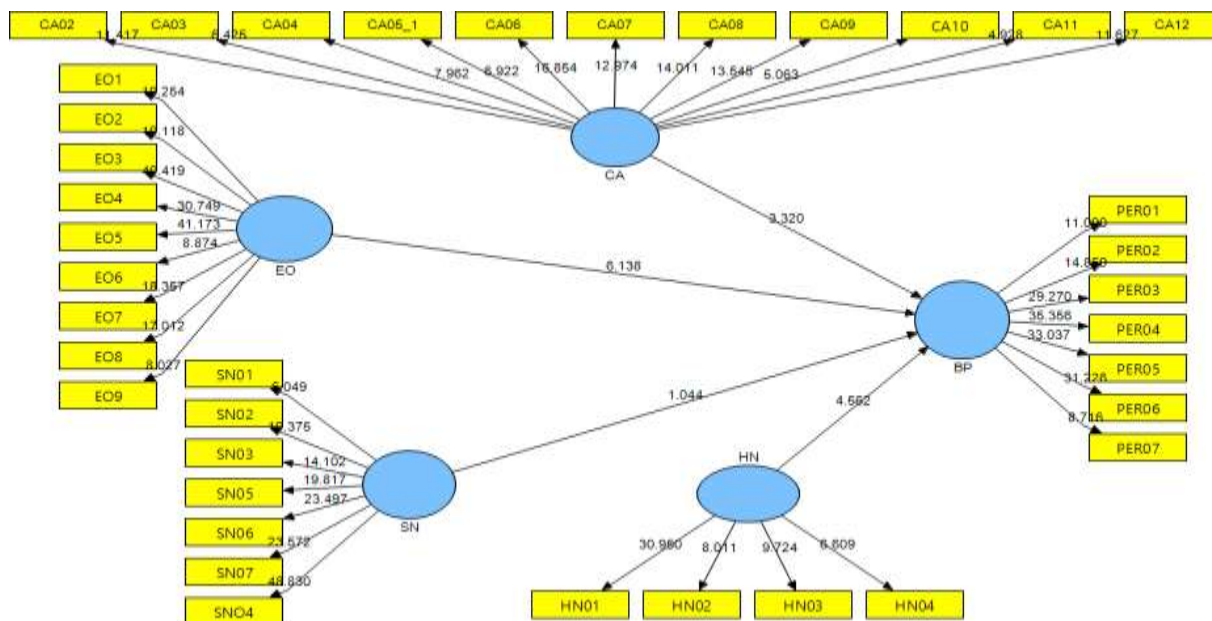


Table 4: Path Coefficient and Hypotheses Testing

Hypothesis	Relations	Beta	Standard error	T Statistics	P Value	Findings
H1	EO -> BP	0.744	0.121	6.138	0.00***	Supported
H2	HN -> BP	0.401	0.087	4.562	0.00***	Supported
H3	SN -> BP	0.136	0.130	1.044	0.15	Not-Supported
H4	CA -> BP	-0.478	0.144	3.320	0.00***	Supported

Business performance (R^2) = 54%Note *** $p < 0.01$

Structural Model

The results of structural modelling are presented in Table 4 and Figure 2. The R-square value is 0.537 which suggest that, the model variables i.e entrepreneurial orientation, social network, human capital and competitive advantage can collectively explain 54% of the variance of the business performance. Chin (1998) classified R^2 of .19, .33 and .67 as weak, moderate and substantial respectively. Therefore, the R^2 of the present study can be categorized as moderate. Hypothesis 1 stated that entrepreneurial orientation is positively related to business performance. The results in Table 4 and Figure 2 shows that hypothesis 1 is supported in view of the significant positive relationship between entrepreneurial orientation and business performance ($\beta = 0.74$; $p < 0.001$). Hypothesis 2 predicted that human capital is positively related to business performance. As shown in Table 4 and figure 2, hypothesis 2 is empirically supported ($\beta = 0.401$; $p < 0.00$) because human capital is positively related to business performance. In contrast, Hypothesis 3 stated that social network is positively related to business performance ($\beta = 0.13$; $p < 0.15$), the result shows that social network is not related to business performance, while hypothesis 4 predicted that competitive advantage is positively related to business performance ($\beta = -0.478$; $p < 0.00$). The results in Table 4 and Figure 2 shows that hypothesis 4 is supported and significantly associated with business performance.

The effect size (f^2) is used to examine the singularity effect of each independent variable to the dependent variable. According to Cohen (1988), effect size of 0.002, 0.15, and 0.35 are classified as small, medium and large respectively. Therefore, we use formulae to find out the effect size of each independent variable. the effect size of entrepreneurial orientation, social network, human capital and competitive advantage are 0.368, 0.002, 0.178 and 0.113 which is classified as large, none, medium and small respectively.

Lastly, the model predictive relevance (Q^2) is 0.298 which is use to evaluate the power of the model in absents of unobserved data, its access using construct-cross validated redundancy (Haire, et al., 2011). Therefore, Q^2 can be consider as acceptable because it's greater than zero (Geisser, 1974; Stone, 1974).

DISCUSSION

This pilot study investigated the influence of entrepreneurial orientation, social network, human capital and competitive advantage on business performance among the SMEs in Nigeria. The results of the study provided empirical support for the influence of entrepreneurial orientation, social network, human capital competitive advantage and business performance. Specifically, the results showed entrepreneurial orientation, human capital competitive advantages are positively related to business performance. Building on Resource Based-View theory, we argued that entrepreneurial orientation, human capital competitive advantage of a manager/owner of the firm can increase the level of their SME performance. This prediction is consistent with the previous studies conducted (e.g. Li, Zhao, Tan & Liu 2008; Augusto Felício, Couto, & Caiado, 2014; Tovstiga & Tulugurova, 2009). The results further suggested that social network is not significantly related to business performance. This result is also consistent with Musteen, Francis, and Datta (2010), who have argued that the social network does not increase the performance of a firm.

Table 4: Summary of Respondents Demography

Item	Frequency	Percent
Job position in the enterprises		
Owner	28	36
Manager	26	34
Both	23	30
Marital status		
Single	15	20
Married	52	67
Divorced	10	13
Gender		
Male	48	62
Female	29	38
Education Level		
Primary	6	8
Secondary	8	10
Graduate	20	26
Postgraduate	28	36
Non-formal education	15	20
Industry		
manufacturing/manufacturing related activities	17	22
services/ICT	37	48
Others	23	30
Turnover		
less than N50,000	15	20

Table 4....

N50,000<N200,000	16	21
N200,000<1,000,000	17	22
N1,000,000<N5,000,000	25	33
N5,000,000<N10,000,000	4	5
Number of Employees		
less than 5	5	7
5 to 19	19	25
20 to 50	35	46
50 to 100	8	10
101 and above	10	13

CONCLUSION

As clarified in the introduction, the one of the objectives of this pilot study is pre-tests the content validity and reliability of the items of present study in preparation for the main research. Based on the results of the current test the convergent validity and composite reliability, average variance extracted and discriminant validity for the respective constructs under investigation are all above given the recognized threshold. It can be concluded the entire construct are reliable.

Further, in the Structural Equation Model testing the path coefficient results showed that entrepreneurial orientation, human capital and competitive advantage are positively related to business performance. The results also demonstrated a non-significant relationship between social network and business performance.

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