

# **INFLUENCE OF ENTREPRENEURIAL ORIENTATION AS SURVIVAL STRATEGY FOR SMALL AND MEDIUM ENTERPRISES: THE NIGERIA EXPERIENCE**

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## **Abstract**

*This study is designed to investigate the survival strategies for small and medium enterprises in Africa with particular reference to Nigeria. A total of 150 SMEs were randomly selected from business industrial cluster in Lagos (South West) Nigeria and used for the study. Secondary and data were used for data collection. Analysis was conducted via descriptive statistics, frequency tables was used for summarizing the data. SPSS version 2.0 was used. A multivariate regression model was used to measure the variables of entrepreneurial orientation and network models on SME's survival. The result reveals that the variables of entrepreneurial orientation (Innovation, risk taking and pro-activeness) and have significant positive influence on SME's survival. Both regression and correlation results indicated that entrepreneurial orientation variables had positive influence on SME's survival. Innovation was the most significant with*

*correlation coefficient of 0.915 elements of entrepreneurial orientation influencing SME's survival in Nigeria; while proactiveness was the most significant with correlation relationship of 43.3% combined strategies to influence the survival, profitability, growth and sustainability of SME's. The study recommended that SMEs owners should explore the dynamic changes occasioned by entrepreneurial orientation in other to improve on entrepreneurial attitude and behaviour, characterization that can improve SME's existence in the business ecosystem.*

**Keywords:** *Entrepreneurial, Orientation, Innovativeness, Survival Strategies, SMEs*

## INTRODUCTION

In several developed and developing economies, small and medium enterprises (SME's) are the main avenues for economic development and their importance for local, regional and national development has been on the increase (Ndabeni, 2008; Cooper & Park, 2008; Lalkaka & Abentti, 1999). Also, small and medium enterprises have become a formidable common form of business organization and the main creator of employment and output in many countries (Nichter & Goldmark, 2009; Neumark, 2008). That explains why SME's" are universally acknowledged as "effective instruments for income generation and economic growth"(Dimirchi & Rahimi, 2011:Pg 855). Specifically, "SME's account for more than 95 percent of all firms in many developed countries and they play a major role in the world economies" (Chiao, Yang, & Yu, 2006: Pg 595).

The literature therefore indicates that the benefits of SME's to any economy are easily noticeable, they include: contribution to an economy in terms of productive employment opportunities, developing and adapting appropriate technological advancement and creation of the platform for industrialization. Some developing nations such as Nigeria, Ghana, and Kenya have recognized the importance of SME's and have formulated policies to encourage, support and fund them.

It is suggested that one of the significant characteristics of a flourishing and growing economy is a booming and blooming SME's sector. SME's therefore, play an important role in the development of a country by creating employment for rural and urban growing labour force, providing desirable sustainability and innovation in the economy as a whole. Reasons adduced for this attitude is that, SME's have a big potential to bring about social and economic transformation and development by contributing significantly in employment generation, income generation, catalyzing development and growth in urban and rural areas (Hellberg, 2000; Olutunla: 2001:OCED, 2004: Williams, 2006). In a similar reasoning (Ligthelm, 2008) posit that

the benefit of small and medium enterprises to any economy are easily noticeable as they include development of skilled and semiskilled workers, developing lower income groups, attracting significance and improving the living standards of communities by adopting appropriate technological approaches to increase income growth. Recognizing the indispensable role of SME's and private sector enterprises in general economic development, many developing economies including Nigeria have instituted enterprise support networks and structures to enhance the development of these enterprises.

At various times since the 1970s, the Nigerian government has designed and introduced measures to promote the survival and sustainable SME's (Akwani, 2007). Some of the measures include introduction of such policies and pro active strategies like Export Promotion initiatives and the creation of SMEDAN to ensure SME's occupy a place of pride as the engine room of growth and catalyst for socio economic transformation of the Nigeria economy

.Scarborough, Zimmere & Wilson (2008) opine that in addition to their role as the agent of economic transformation agenda in the Nigerian economy, the principal justification for SME survival strategies is that the failure rates of the small and medium businesses is fairly high and is becoming endemic in the beginning years. Ndabeni (2008) aligns with this view that in both developed and developing countries where many new ventures fail and only a few can attain the survival and sustainability rating. Especially in developing countries, many SME's have a lot of challenges as they operate in economically less conducive environment for enterprise development and these difficult conditions faced by entrepreneurs owners of most SME's in Africa makes SME's survival a difficult endeavor. Evidences has proven that on the average, one-third of every new enterprise fail at the end of the second year and 50-60% of these SME's cannot manage to survive until the end of the seventh year (OECD, 2009). This forgoing scenario is applicable to Nigeria as most Nigerian entrepreneurs are owners of SME's at necessity level and they have ultimate responsibility to nurture their firms in order to continue to remain in business.

Many researchers observed that with all the efforts put in place by successive governments in Nigeria many SME's still find it difficult to survive the turbulence in the market economy (Adeusi & Kolapo, 2006). It has also been noted by (Adejuwon (2011) that the present comatose state of the SME's survival in Nigeria is a sad reminder that there is a missing link between strategies and SME's sustainability (World Bank, 2009). Hence, the much needed strategies for SME's survival and sustainability are far from being fully exploited.

There are other various contributory factors to small and medium enterprises failure rate; most common reasons include lack of strategies, lack of knowledge, funding barriers and lack of capital management and skill sets (Rankhumise,2009). For decades, several constraints

including lack of organizational knowledge by the entrepreneurs have challenged the depth of survival of SME's and new venture establishments (Aldrich & Fiol, 1994) This by extension requires SME's owners to understand the nature of their business needs infrastructure issues, technology, and the demand of the external environment. This short coming has posed the third problem inability of SME's in Nigeria to be proactive about the external environment..

Because of this gloomy situation, government of Nigeria has responded by introducing various national policies, plans and programs with regard to support and ensure the survival and sustainability of SME,s in Nigeria. The initial response of the policy makers in Nigeria was either not proactive or reactive enough to respond to the alarming rate of the depth of problems faced by SME's or understand the magnitude of the difficult conditions faced by owners of SME's. In a related manner, owners of SME, s also initiated various strategies to support existing and newly established enterprises to survive. These support and actions came too late as most promoters of SME's are not prepared and assumed that the survival crisis for the SME's sub-sectors is just another endless debate until when they discovered that most SME's in Nigeria are not able to contend with economic reality to justify their survival and existence. Some of these challenges faced by SME's in Nigeria have engulfed the SME's sector and pose a lot of salient problems. It is important to determine and evaluate some of the critical problems that limit the potentials of SME' in Nigeria.

In this context, survival strategies becomes the mandatory prerequisites for owners of SME's if they are determined to remain vibrant and sustainable (Shepherd, Douglas & Shanley, 2000). These kinds of strategies are mainly aimed at increasing the formation, survival and success rate of SME's (Rice, 2002). Against this background, the overall purpose of this study is to explore survival strategies via entrepreneurial orientation (innovativeness, risk taking and proactiveness) as SME's survival strategies mechanism aimed to address the SME.s willingness to be pro active, innovate and rejuvenate its services and to take risk even under uncertain conditions.

### **Statement of the Problem**

Small and Medium Enterprises (SME's) are widely recognized as the key engine of economic development and play important economic roles in many developing countries all over the world. They have been the means through which accelerated economic growth and rapid industrialization can be achieved. Despite their contributions to income and employment creation, most SME's fail to survive and grow to larger corporate entities. In other words, in spite of the contribution of SME's to economic development, most of them sill face many obstacles that limit their long-term survival and sustainability. A number of studies attribute these rates of

failures to harsh economic condition and hostile business environment. These barriers to growth and survival of SME's are categorized into two namely; those acting as barriers to general operations involving the type of decisions needed to start and maintain a successful business and those impeding growth via administrative problems, operating problems and strategic problems.

### **Objective of the Study**

To evaluate strategies that can facilitate survival and growth of SME's in Nigeria

### **Research Question**

Does the operationalization of entrepreneurial orientation as strategy reduce the failure rate of SME's in Nigeria?

### **Research Hypothesis**

There is no significant relationship between entrepreneurial orientation (EO) as strategy and SME's survival in Nigeria.

## **LITERATURE REVIEW**

The concept of entrepreneurial orientation (EO) has emerged as an important concept in the survival of SME's over the past two decades (Hung & Chiange, 2015; Ibeh & Young, 2001). Originally proposed by Miller (1983; Pg 775), EO involves an organizations willingness to innovate and rejuvenate its business position (innovativeness); to take risk by staking out its competitive position (risk taking); and to be more proactive than its competitors in seeking out new market place opportunities (proactiveness).

According to Pett & Wolff (2011) as cited in Lumpkin & Dess (1996) "entrepreneurial orientation is a set of decision making styles, processes, practices, rules, and norms according to which a firm makes decisions to enhance its innovativeness, proactiveness and risk taking propensity". It has also been argued that "entrepreneurial orientation is the willingness of SME's to innovate, search for risks, take self directed actions, and be more proactive and aggressive than competitors towards new market place opportunities (Ilani, 2014; Pg 258). Therefore, SME's are adequately guided to reposition for greater productivity and drive the process of survival. That explains why Idah & Mahmood (2011) concluded that EO is a management strategy used by SME's to engage in creativity, technological leadership, taking bold actions and acting in anticipation of surviving in the market.

The theory of entrepreneurial orientation was originally proposed by Miller (1993). He described EO as SME's willingness to innovate and rejuvenate its market potentials, to take risk by trying new ideas and to be more proactive than its competitor in seeking out new market opportunities for growth and survival. Lumpkin & Dess (1996) define entrepreneurial orientation as a decision making styles, processes, practices, rules, and norms according to which SME's make decisions to enhance its growth, survival and sustainability through innovativeness, proactiveness, and risk taking propensity. Jolanda & Terjesen (2008) describes how entrepreneurial orientation has been a tendency of SME's survival by developing an attitude to innovate, search for risks, take self – directed actions, and be more proactive and aggressive than competitors toward new market opportunities.

The model examines three multidimensional construct, namely; innovativeness, risk taking and proactiveness as factors which characterizes SME's entrepreneurial behaviour to survive. Kroop (2005) assume that the first entrepreneurial behaviour for SME's to survive is innovativeness. He described innovativeness as the predisposition of SME's to engage in creativity through technological leadership. Chandara, Styles & Wikison (2007) acknowledge risk taking as a bold strategic management actions taking by SME's by venturing into the unknown market environment by committing significant resources to ensure growth, sustainability and survival. Fazul (2010) assume that proactive behaviour exhibited by SME's is capable of stimulating growth and ensure the survival of SME's. He described proactiveness as an opportunity forward-looking competitive aggressiveness perspective characterized by SME's acting in anticipation of future demand.

## **Empirical Review**

Our empirical review focused on the relationship between survival strategies and SME's survival. To enable us accomplish our objectives, we examined three dominant studies in this area. They include (Zahra & Covin 1995; Lumpkin & Dess, 2001; Lee, Sun & Park 2012) on the relationship between survival strategies and SME's survival. The results from these research revealed that there is a positive correlation between adaption of survival strategies and SME's survival. In 2012, Chang studied the effect of entrepreneurial orientation as a strategy on SME's survival, drawing a sample of 235 small businesses from six different industries in China and found a significant positive relationship between entrepreneurial orientation and survival of small and medium enterprises. Similarly, Nobre & Silva, (2014) also found significant positive relationship between entrepreneurial orientation and SME's survival. Accordingly, Zahra & Garvis (2000) in a previous study noted that entrepreneurial orientation improves the firms' capability to perceive and recognize opportunities to survive.

Authors such as (Naman & Slevin 1993; Wheeler and Jones 2006; Pett & Wolff, 2011) also acknowledged that a strong positive link between entrepreneurial orientation and SME's survival exists. They posit that SME's with high entrepreneurial orientation survive better than SME's with low entrepreneurial orientation. Maseko (2010) noted that entrepreneurial orientation has been regarded a prominent factor for SME's survival and sustainability, while Wikund & Sheperd (2005) and Covin & Slevin (2006) supported the previous position as they observed that the more SME's adopt entrepreneurial orientation the more they become profitable and survive. Lumpkin and Dess (2001) consider entrepreneurial orientation as consisting of three core dimension of innovativeness, proactiveness and risk taking, a number of other scholars Miler (1983); Naman & Slevin (1993); Rauch, Wikund, Freese & Lumpkin (2004) investigated the influence of innovativeness, proactiveness and risk taking on the survival of SME's in hostile business environment by studying 161 SME's. in selected developing economies The findings of the investigation revealed that the component of EO such as innovativeness, proactiveness and risk taking have major positive significance contributions to the survival of SME's in turbulent business area. In aligning with the previous authors,

Fadhanhusi (2012) have found a positive correlation between survival strategies via innovativeness and SME's survival. Okpara (2009) acknowledges that SME's that are innovative driven have a higher level of survival rate than those SME's with conservative attitude toward innovativeness. He contend further that for SME's to be able survive, the SME's need distinctive capabilities and continuous development, integrate, reconfigure its skills and abilities in order to adjust to rapidly changing external environment .Indeed authors such as (Mai, Kim, Hao & Jang 2012; Mursall, 2007; Ahmed et al, 2004; Ibeh, 2004) affirm that innovativeness has the capacity to promote stronger competitiveness that can ultimately lead to survival and sustainability of SME's. They observed that innovative SME's have a broader base of skills and knowledge that can make them to capitalize on opportunities and triumph over the barriers that threatens SME's performance to survive in the marketplace.

Several studies (Oni 2012; Seyed 2011; Schillo 2011) noted that proactiveness is a key tool especially for SME's to come up with strategic initiative that are essential for guaranteeing success and survival of SME's. In a previous studies (Hung & Chang 2010; Faizul, Hirobumi, & Tanaka (2010) had earlier submitted that proactive SME's tend to survive because they largely pursue new opportunities ahead of competition, while Maseko (2012) on the other had earlier indicated that a lack of proactiveness reduced the chances of SME's to survive and be successful. In fact, researchers such as Fatoki (2014) aligns with the submission of other authors and noted that the extent to which SME's aggressively pursue opportunity and proactively repositioned its niche, have been linked to SME success and survival.



A number of studies (Leko-Simi & Hovat 2006; Okpara 2009) found a positive relationship between risk taking and SME's survival. This aligns with the submission of Mostafa (2006) that noted a strong association between risk taking and overall SME's survival, while Kroop (2008) indicated that SME's with high risk taking propensity and have access to cutting-edge technologies to facilitate efficiency and effectiveness in the marketplace tend to survive better than SME's with conservative nature. Therefore it has been pointed out by authors such as Okpara (2009) that SME's who dare to take more risk have a higher survival tendency than the risk averse SME's. Authors such as Rauch, Wikund, Freese & Lumpkin (2004) have also pointed out that risk taking by SME's is positively related to SME's survival, even though its effect is usually significantly smaller than other aspects of EO. In his submission (Seyed 2012) acknowledges that SME's willingness to engage in relatively high levels of risk taking behaviours helps the SME to seize profitable opportunities in the face of uncertainty and to achieve long term sustainability and high level of survival rate.

## RESEARCH METHODOLOGY

This research adopted Ex-Post Facto design. The design takes into consideration all the dimensional parameters of entrepreneurial orientation, namely; (Innovativeness, Pro-activeness, Risk taking). The study was conducted in two major industrial clusters in Lagos (Ilupeju and Ikeja industrial layouts). The target population consisted of 150 small and medium enterprises operating within these industrial clusters that have been in existence for at least five years.

The sample consisted of firms listed in the Manufacturers Association of Nigeria (MAN) directory. From this directory five industrial sectors which met our predetermined criteria were selected: (1) meet the definition of an SME defined by OECD as employing between 50 to 500 employees, (2) manufacturing the following: food and beverages, textile and clothing, plastic and chemicals, leather and shoes. By employing judgmental sampling technique, we obtained a sample of 150 firms from the MAN directory. Our judgment was on the financial position of the SME's and the fact that they remain active and still in business in the industrial clusters. The data for this study were collected through already prepared financial and operational reports of SME's over the period of 10 years (2007-2016) from books of Federal Inland Revenue Service and Corporate Affairs Commission. The justification for selecting the 10 year (2007-2016) data series was as a result of the difficulties experienced by SME's in Nigeria based on poor financial returns as reported by the secondary document consulted for this study and majority of start-ups SME's performance are measured within five years of existence.. Most significantly this period (2016) was the period majority of start-up SME's recorded a high failure rate within first five years of existence in Nigeria which was attributed to economic recession in Nigeria The year



2016 was seen as the emergent of recession in Nigeria which many claimed has negative impact on SME's survival.

### Model Specification

The foregoing suggests that a general empirical model of survival strategies

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \mu$$

Variables for Entrepreneurial Orientation are the following:

X1 - Innovativeness

X2- Risk Taking

X3- Proativeness

### Method of Data Analysis

Data analysis was also done using a linear multiple regression models in the form of;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \mu$$

Where, Y = Growth of SME's which was the dependent variable of the study, X1, X2, X3 represented innovativeness, risk taking, pro-activeness which were the independent

The model assesses the relationship between the dependent variable Y and the explanatory variables X1, X2, X3.

### ANALYSIS

Data analysis was employed by using a linear multiple regression models in the form of:

$$Y = \beta_0 + \beta_{1x1} + \beta_{2x2} + \beta_{3x3} + N$$

Where, Y = SME's survival strategies which was the dependent variable of the study, X<sub>1</sub>, X<sub>2</sub> and X<sub>3</sub> represented innovativeness, Risk taking and pro-activeness which represented the independent variables.

Variables for Entrepreneurial Orientation are the following:

X1 - Innovativeness

X2- Risk Taking

X3- Proativeness

Table 1: Multivariate Regression Model Fitness for Entrepreneurial Orientation

Indicators	Coefficient
R	0.953
R square	0.909
Std. error of the estimate	0.184

Analysis of Variance on Table 1 shows that the combined effect of innovativeness, risk taking and pro-activeness was statistically significant in explaining and analyzing changes in survival of SME's. This is demonstrated by a P value of 0.000 which is less than the acceptance critical value of 0.05.

Table 2. Analysis of Variance (ANOVA) Entrepreneurial Orientation

	Sum of square	DF	Mean square	F	Sig.
Regression	44.651	4	11.16	328.547	0.000
Residual	4.486	132	0.034		
<b>Total</b>	<b>49.137</b>	<b>136</b>			

Table 2 above displays the regression coefficients of the independent variables. The results reveal the innovativeness, risk taking and pro-activeness were positively and statistically significant in explaining the survival rate of SME's. The findings imply that all the independent variables were strong determinants of survival strategies of SME's.

The results indicates that an increase in the effectiveness of innovativeness by one unit leads to an increase in survival rate of SME's by 0.430 units; an increase in the effectiveness of risk taking by one unit leads to an increase in survival of SME's by 0.337 units; an increase in the effectiveness of pro-activeness by one units leads to an increase in survival of SME's by 0.031 units.

Table 3. Regression Coefficient – Entrepreneurial Orientation

Variable	Beta	Std. error	T	Sig.
(Constant)	0.431	0.159	2.711	0.041
Innovativeness	0.43	0.065	6.618	0.000
Risk-taking	0.337	0.063	5.346	0.000
Pro-activeness	0.301	0.061	4.934	0.000

## DISCUSSION OF FINDINGS

Descriptive results indicate that majority of respondents agreed that innovativeness had an effect on the survival of Small and Medium Enterprises. This was supported by a mean of 4.28 and a standard deviation of 0.67.

Inferential statistics showed that the correlation between survival of SME's and innovativeness was strong and positive (0.915) and significant (0.000). The regression results indicate that an increase in the effectiveness of innovativeness by one unit leads to an increase

in survival rate of SME's by 0.430. The findings aligns with those in Dess and Lumpkin (2005) that innovativeness was of high importance as it is an opportunity-seeking, forward looking perspective characterized by as the best strategy for taking advantage of market opportunities and exploiting market asymmetries.

Descriptive results indicate that majority of the respondents agreed that risk taking influences survival rate of Small and Medium Enterprises. The findings are supported by a mean of 3.63 and a standard deviation of 1.03

The findings agrees with Hajar (2015) who found that SME's with EO often take bold steps in risk taking such as entering unknown new markets and committing a large portion of the firms' resources in the desire of gaining high returns by pursuing opportunities in the market.

Descriptive results indicate that proactiveness influences survival rate of SME's. The findings are supported by a mean of 3.87 and a standard deviation of 1.27.

The findings agree with those in Iorun (2014) that in most situations SME's utilizes proactive behaviours to enhance their competitive positioning and foresight to seize new opportunities to remain in the market environment.

This aligns with the views of Garcia and Calanton (2002) that SME's these days' needs to adopt innovativeness as their source of survival strategies and to expand their product/services to a wider geographical market. From the table relationship percentage of 43.4%, the combination of both variables (Innovativeness and proactiveness) influences survival rate of SME's positively. This aligns with Oke (2013) assertion that SME's survival is highly determined through innovations and technological innovation and this is crucial to their growth and sustainability.

The purpose of this study is to explore the choice of strategies for the survival of SME's in Nigeria. The study adopted Covin & Slevin's (1996) approach, and included all the three dimensions of EO (innovativeness, risk taking and proactiveness) The results support our hypotheses that there is a significant relationship between entrepreneurial orientation (EO) as strategy and SME's survival.

The findings from the display of the regression coefficient suggest that innovativeness, risk taking and proactiveness are statistically positive and strong determinants of SME's survival. The result further explains that an increase in any of the EO dimensions (innovativeness, risk taking and proactiveness) by one unit will automatically lead to an increase in survival of SME's.

## CONCLUSION AND RECOMMENDATIONS

Undoubtedly, SMEs are a driving force in the economic development of developed and developing countries. SMEs in Africa and Nigeria in particular are often constrained by so many factors to survive and remain sustainable. Survival strategies have been developed, which this research has synchronized with entrepreneurial orientation and network model. These survival strategies have immensely contributed to the growth and sustainability of the studied SMEs.

They serve as the running engine through which the economy survives.

By building on previous research, this study examined the relationship between strategies for SME survival and offers a number of propositions for testing regarding this relationship. The result indicates a positive relationship between EO and SME's survival. This is consistent with the theory that SME's with high EO out perform and have high chances of survival than SME's with low EO (Kroop, (2006).

The research result revealed that in a dense competitive mobile economy such as Nigeria the application of strategies for SME's survival is a top most priority. For this to be achievable owners /promoters of SME should practice quality management which will play a critical role in improving the profitability of many SME's in their early years of operation. It is necessary also for SME's owners to formulate adequate proactive strategies which will help to reposition SMEs in the market place by launching new products ahead of future demand. Managers with good management experience should be able to apply appropriate financial strategies so as to be prudent in recordkeeping which will provide SMEs with accurate financial information on which decisions are the based in areas of sales projections, determining break-even point of profits, and ascertaining other financial analyses. The implication of prevalent lack of proper accounting records has led to the closure of most SMEs thereby making it a highly significant issue for SME, survival and sustainability.

The study, therefore, recommends that there is need for orientation and strong advocacy for entrepreneurs in SME's in Nigeria and Africa to change the mindset on how they are operating their businesses. They should inculcate the attitude of exploring modern scientific business practice and adapting to various survival strategies proposed to operate their businesses.

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