

## **Re-Thinking Entrepreneurial Orientation and Performance of Small and Medium Enterprises in Kano**

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**Abstract:** Research investigations on entrepreneurial orientation (EO) and performance of small and medium enterprises (SMEs) are enormous in entrepreneurship literature. However, there are few studies that investigated the relationship between EO dimensions – risk-taking, innovativeness, proactiveness, autonomy and competitive aggressiveness. Yet, studies that investigated the relationship in developing country context are limited in entrepreneurship literature. Thus, this research aims to determine whether the five (5) EO – dimensions matter, on the performance of SMEs in Kano, Nigeria. To determine this relationship, quantitative research was adopted and data of 197 SMEs' managers was collected using questionnaire. Hence, the study is a cross-sectional survey, the data was analyzed using SPSS – statistical package for social science and SEM – Structural Equation Modelling. According to the outcome, competitive aggressiveness, innovativeness and risk-taking affect the performance of SMEs. While proactiveness and autonomy do not matter to the performance of SMEs. Therefore, research implications were provided as a guide to policy makers and business managers.

**Keywords:** Entrepreneurial Orientation and Performance, SME

### **1. Introduction**

According to Lumpkin and Dess (1996) and Covin and Slevin (1996), entrepreneurial orientation (EO) reflects the behavior of firms in terms of risk-taking, innovativeness, proactiveness, autonomy and competitive aggressiveness, to achieve superior performance and enhance competitiveness of small and medium enterprises (SMEs). Risk-taking is defined as the level of courage of firms to undertake new

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projects and commit resources (Ibrahim & Martins, 2020), in anticipation of uncertain return (Cui, Fan, Guo & Fan, 2018). While innovativeness is defined as “creative growth path” pursued by business enterprises either by way of improvement or introduction of new process, products (Diaz & Sensini, 2020), and method to enhance performance and competitiveness (Ibrahim & Martins, 2020).

On the other hand, proactiveness is defined as firms’ ability to predict customer demand, identify market opportunities and quickly respond to anticipated opportunities and satisfy customer needs (Diaz & Sensini, 2020; Ibrahim & Martins, 2020). Yet, autonomy is defined as the degree of independence exercised by firms in taking risky action and decisive decisions, as well as carrying out projects and developing new products (Zehir *et al.*, 2015). However, competitive aggressiveness is defined as the combative approach of firms (Lumpkin & Dess, 1996), in market environment to outwit competitors (Diaz & Sensin, 2020).

Scholars have investigated the effect of various EO dimensions on the performance of SMEs. For instance, Ibrahim and Martins (2020) have established the effect of risk-taking, innovativeness and proactiveness on SMEs’ performance. Also, Diaz and Sensini (2020) have examined the influence of risk-taking, innovativeness, proactiveness, autonomy and competitive aggressiveness on the performance of SMEs. However, the effect of EO dimensions on performance of SMEs has been described as inconclusive (Kosa, Mohammad & Ajibie, 2018). Equally, Ojewumi and Fagbenro (2019) contend that the entrepreneurial orientation and performance relationship is not always positive and significant. Besides, Zehir *et al.* (2015) asserted that both risk-taking, innovativeness, proactiveness, autonomy and competitive aggressive have varying degrees of influence on performance of SMEs.

Therefore, this study intends to find out whether EO matters, on the performance of SMEs in a developing country context? Hence, this study is one of the few research projects that investigated the effect of 5 dimensions of EO on performance of SMEs. Specifically, this study examines whether risk-taking, innovativeness, proactiveness, autonomy and competitive aggressiveness matter on performance of SMEs in Kano?

## 2. Literature Review

### 2.1 Concept of Entrepreneurial Orientation

The concept of entrepreneurial orientation is linked with many connotations. According to Cui *et al.* (2018), entrepreneurial orientation suggests the predisposition of firms to adopt proactive behavior, take risk and implement innovative approaches. Still, Lumpkin and Dess (1996) have defined entrepreneurial orientation as strategic attitude of business enterprises in terms of risk-taking, proactiveness and innovativeness. Accordingly, Covin and Slevin (1996) have defined the term entrepreneurial orientation as the strategic orientations of firms with regard to risk-taking, innovativeness, proactiveness, autonomy and competitive aggressiveness. Hence, entrepreneurial orientation is composed of five (5) distinct dimensions which comprised of risk-taking, innovativeness, proactiveness, autonomy and competitive aggressiveness.

#### (a) Risk-Taking

Risk-taking reflects the preparedness of a firm to project opportunities in an uncertain condition, commit resources and venture into activities with courage of achieving better outcome (Covin & Slevin, 1996; Lumpkin & Dess, 1996). Also, Ibrahim and Martins (2020) have defined risk-taking as willingness of firms to commit resources and undertake new projects in anticipation of uncertain outcomes. However, Diaz and Sensini (2020) described risk-taking as the ability of entrepreneur to take bold action, as well as courage of entrepreneur to act regardless of degree of uncertainty. Thus, risk-taking involves resources commitment, search of new opportunities and development of competences in anticipation of uncertain returns (Cui *et al.*, 2018).

*(b) Innovativeness*

Innovativeness reflects the ability of a firm to generate and experiment with new ideas and create new processes and launch new products into the market (Covin & Slevin, 1996; Lumpkin & Dess, 1996). Similarly, Diaz and Sensini (2020) defined innovativeness as creative path to facilitate business growth and survival through idea generation, and product development and testing. Yet, Schumpeter (1947) described innovativeness as introduction of new things, as well as modification of existing things – product, process or method. Therefore, innovativeness entails amendment of existing process, as well as launching of new product through generation and experimentation of new ideas (Ibrahim & Martins, 2020).

*(c) Proactiveness*

Proactiveness reflects the tendency of a firm to quickly respond to opportunities and take advantage of any identified market opportunities (Covin & Slevin, 1996; Lumpkin & Dess, 1996). Likewise, Diaz and Sensini (2020) described proactiveness as the ability of business enterprises to proactively predict customer demand, challenge competitors and stimulate customer needs through launching of new product into the market. In addition, Ibrahim and Martins (2020) defined proactiveness as firms' ability to take advantage of evolving trends and respond quickly to anticipated opportunities, through enhancement of brand image and introduction of new product. Therefore, proactiveness entails firms' ability to respond to opportunities in the market environment better than competitors, in anticipation of future demand, by responding to market changes and introducing new brands (Hughes & Morgan, 2007).

*(d) Autonomy*

According to Lumpkin and Dess (1996), autonomy is defined as the ability of firms to freely generate business ideas or concepts and independently carry out necessary tasks from beginning to completion. Also, Covin and Slevin (1996) defined autonomy as the propensity of a firm to take decisive action and perform independently. In addition, Diaz and Sensin (2020) defined autonomy as firms' willingness to independently decide and freely develop new projects. Hence, autonomy reflects the behavior of entrepreneurial firms to independently and freely take decisive and risky actions in day-to-day operations to enhance competitiveness (Zehir *et al.*, 2015).

*(e) Competitive Aggressiveness*

Competitive aggressiveness is defined as propensity of firms to take combative approach to outwit competitors (Lumpkin & Dess, 1996). Likewise, Covin and Slevin (1996) defined competitive aggressiveness as the ability of firm to intensely respond to competition or challenge competitors in the market. Hence, competitive aggressiveness is critical attitude and behavior of firms seeking to improve position (Zehir *et al.*, 2015), and achieve superior performance in market environment by entering new market or offering new product into the market (Diaz & Sensin, 2020).

## 2.2 Concept of SMEs' Performance

The concept of performance of SMEs is viewed by scholars differently. While Zehir *et al.* (2015) define the concept to reflect the level of achievement of an enterprise in terms of introduction of new product, product quality or market effectiveness. Yet, Ibrahim and Martins (2020) defined the concept to reflect growth potentials of business enterprises using financial indicators or subject measures such as increase in sales, market share and profitability.

Scholars such as Diaz and Sensini (2020) contend that entrepreneurial orientation is key factor in enhancing the performance of SMEs. Hence, the ultimate goal of entrepreneurial orientations is to reflect how business enterprises take risk, involve in innovativeness, adopt proactive behavior, independently evaluate market opportunities and aggressively pursue new opportunities (Ibrahim &

Martins, 2020; George, 2018), to improve performance and achieve growth potentials (Gupta & Batra, 2016).

### 2.3 Hypotheses Development

#### (a) *Entrepreneurial Orientation Dimensions and SMEs' Performance*

According to Covin and Slevin (1996) and Lumpkin and Dess (1996), entrepreneurial orientation is composed of five (5) distinct dimensions – risk-taking, innovativeness, proactiveness, autonomy and competitive aggressiveness; and therefore, emphasizing that each of the dimensions impacts the performance of business enterprises differently. Zehir *et al.* (2015) have also reported that innovativeness, proactiveness and autonomy have positive and significant influence on performance of SMEs. Yet, the study of Diaz and Sensini (2020) found that EO dimensions such as risk-taking, innovativeness and proactiveness have significant influence on corporate performance. In addition, the study of Ibrahim and Martins (2020) found that competitive aggressiveness has a positive influence on corporate performance. Therefore, this study hypothesized that,

H1: Risk-Taking matters in enhancing the performance of SMEs in Kano State.

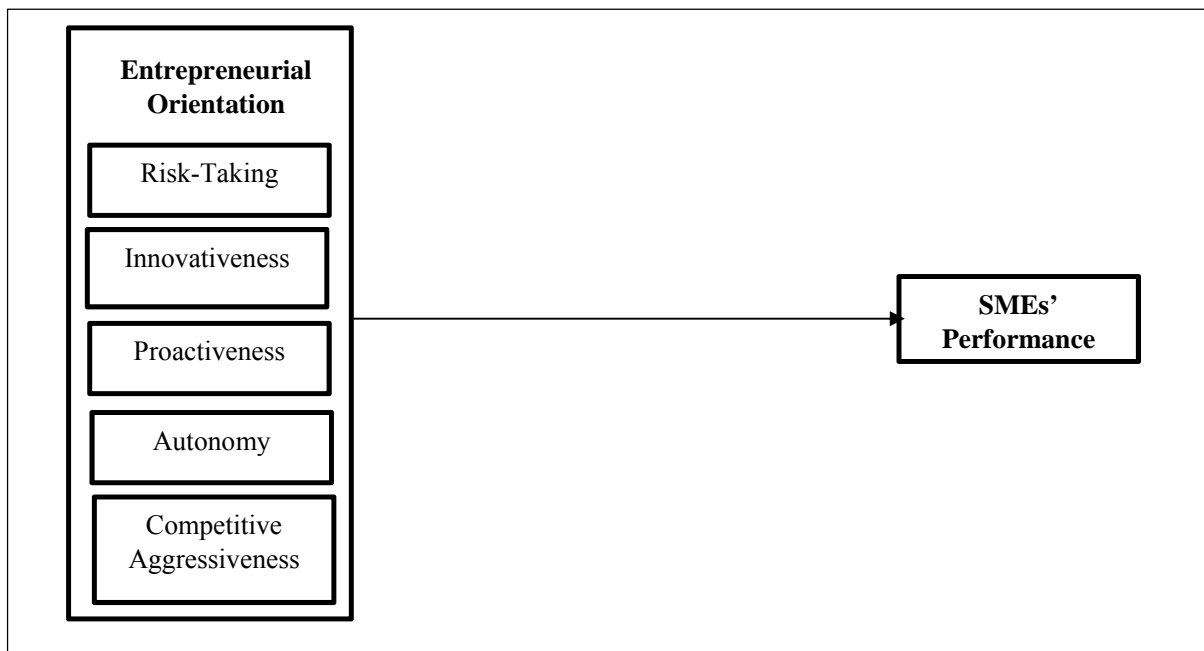
H2: Innovativeness matters in enhancing the performance of SMEs in Kano State.

H3: Proactiveness matters in enhancing the performance of SMEs in Kano State.

H4: Autonomy matters in enhancing the performance of SMEs in Kano State.

H5: Competitive Aggressiveness matters in enhancing the performance of SMEs in Kano State.

### 2.4 Conceptual Framework



**Figure 1: Conceptual framework**

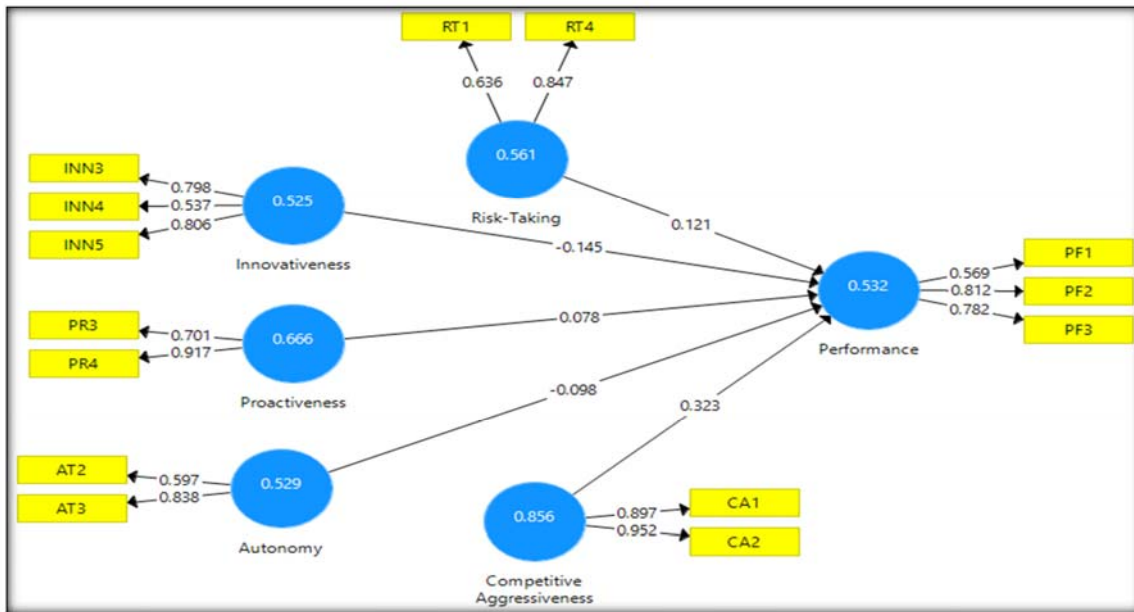
### 3. Methodology

Quantitative is the methodology adopted in this study. Also, a cross sectional approach which emphasized questionnaire distribution and analysis of data at once was adopted in this study. Thus, the population of the study is 8,286 SMEs in Kano State (SMEDAN, 2013), and sample size, according to Krejcie and Morgan (1970) is 368 SMEs. In addition, all instruments that measure variables of the study

were adopted from prior scholars – Performance scale (4 items) adopted from Cui *et al.* (2018). On the other hand, the EO scales consist of Risk-Taking (4 items), Innovativeness (5 items), Proactiveness (4 items), Autonomy (3 items) and Competitive Aggressiveness (4 items) which were adopted from Zehir *et al.* (2015). Accordingly, all responses of owners/managers of the SMEs, were analyzed using SPSS – statistical package for social sciences and SEM – structural equation modelling for data cleaning, preliminary testing, and research hypotheses testing.

**4. Data Analysis and Findings**

While analyzing research data, first, data cleaning was run, and accordingly, all outliers were detected and removed from the analysis. Similarly, descriptive statistics showed a total of 197 usable questionnaires, accounting for 53.5% valid responses rate. Yet, hypotheses testing using SEM showed that each scale in this study has achieved adequate level of validity and reliability suggested by Hair, Sarstedt, Hopkins and Kuppelwieser (2014). Accordingly, to achieve recommended AVE – average variance extract of 0.5, 1 item was deleted in Performance scale, 2 items were deleted in Risk-taking scale, 2 items were deleted in Innovativeness scale, 2 items were deleted in Proactiveness scale, 1 item was deleted in Autonomy scale, and lastly, 2 items were deleted in Competitive Aggressiveness scale. Hence, Figure 2 showed that all variables have AVE and weight loadings above acceptable level of 0.5 and 0.4 respectively.



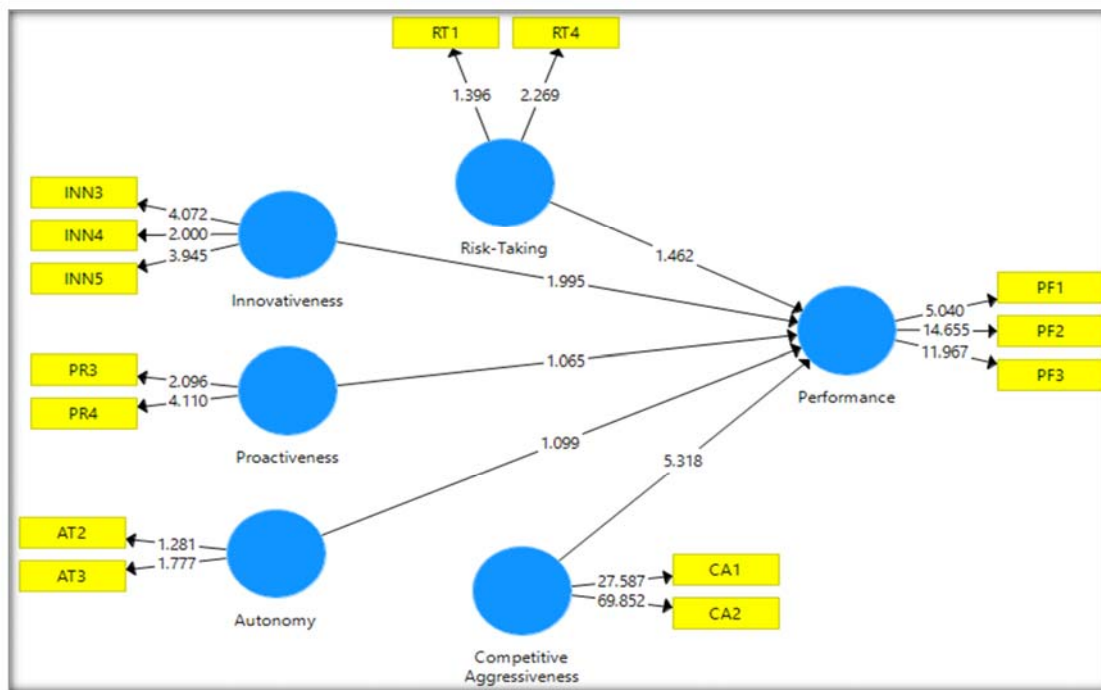
**Figure 2: Measurement model**

Likewise, Table 1 showed that all variables have composite reliability above acceptable level of 0.6, and according to outcome, the constructs have the following composite reliability and AVE – Performance (0.769, 0.532); Risk-Taking (0.715, 0.561); Innovativeness (0.763, 0.525); Proactiveness (0.797, 0.666); Autonomy (0.686, 0.529); and Competitive Aggressiveness (0.922, 0.856). Hence, all research variables have adequate and satisfactory validity and reliability level.

**Table 1: Construct reliability and validity**

	Composite Reliability	Average Variance Extracted (AVE)
Autonomy	0.686	0.529
Competitive Aggressiveness	0.922	0.856
Innovativeness	0.763	0.525
Performance	0.769	0.532
Proactiveness	0.797	0.666
Risk-Taking	0.715	0.561

Equally, the research outcome showed that EO – Risk-taking, Innovativeness, Proactiveness, Autonomy and Competitive Aggressiveness accounted for 17% variance of SMEs’ performance. The result further showed that the entire EO constructs have the following effect size on SMEs’ Performance – Risk-taking (0.017), Innovativeness (0.025), Proactiveness (0.007), Autonomy (0.012), and Competitive Aggressiveness (0.119). Thus, suggesting that Competitive Aggressiveness, Innovativeness and Risk-taking matter significantly in impacting the level of Performance among SMEs. Yet, suggesting that Proactiveness and Autonomy matter least in impacting the level of Performance among SMEs.



**Figure 3: Structural model**

Moreover, the hypotheses testing outcome in Figure 3 and Table 2 showed that Risk-taking, has significant effect on Performance of SMEs ( $\beta = 0.121$ ,  $t = 1.462$ ,  $p < 0.07$ ), Innovativeness has significant effect on Performance of SMEs ( $\beta = -0.145$ ,  $t = 1.995$ ,  $p < 0.02$ ), and as well, Competitive Aggressiveness has significant effect on Performance of SMEs ( $\beta = 0.323$ ,  $t = 5.318$ ,  $p < 0.00$ ). In contrast, the result further showed that Proactiveness ( $\beta = 0.078$ ,  $t = 1.065$ ,  $p > 0.00$ ) and Autonomy ( $\beta = -0.098$ ,  $t = 1.099$ ,  $p > 0.00$ ) have no significant effect on Performance of SMEs.

**Table 2: Hypotheses testing**

	Original Sample (O)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
Autonomy -> Performance	-0.098	0.090	1.099	0.136
Competitive Aggressiveness -> Performance	0.323	0.061	5.318	0.000
Innovativeness -> Performance	-0.145	0.073	1.995	0.023
Proactiveness -> Performance	0.078	0.074	1.065	0.144
Risk-Taking -> Performance	0.121	0.083	1.462	0.072

## 5. Discussion and Implication

This research seeks to empirically determine whether EO matters, on the performance of SMEs in a developing country context? Specifically, the research seeks to determine whether 5 dimensions of EO – Risk-taking, Innovativeness, Proactiveness, Autonomy and Competitive Aggressiveness matter in enhancing SMEs' Performance in Kano, Nigeria? Accordingly, the study tested 5 hypotheses on the relationship between Risk-taking, Innovativeness, Proactiveness, Autonomy and Competitive Aggressiveness and SMEs' Performance. According to the findings, Competitive Aggressiveness matters most in enhancing SMEs' Performance. Also, findings showed that Innovativeness matters in enhancing SMEs' Performance. In addition, findings showed that Risk-taking also matters in enhancing SMEs' Performance. However, the findings showed further that both Proactiveness and Autonomy do not matter on the Performance of SMEs in Kano State.

The current result is similar to the study of Diaz and Sensini (2020) who established the effect of Risk-taking and Innovativeness on SMEs' Performance. The result is equally similar to the study of Ibrahim and Martins (2020) who empirically established that Competitive Aggressiveness has a positive influence on Performance of SMEs. However, the result is contrary to the findings of Zehir *et al.* (2015), who found that Proactiveness and Autonomy have significant effect of Performance of Firms. In conclusion, the findings empirically established that while, 3 EO dimensions – Competitive Aggressiveness, Innovativeness and Risk-taking matter on SMEs' Performance; however, 2 EO dimensions – Proactiveness and Autonomy do not matter on SMEs' Performance.

Therefore, the current findings imply that managers of SMEs can achieve a better performance level if they are able to reposition themselves in the market by becoming more aggressive in facing the competition. Similarly, the current findings implied that managers of SMEs can achieve better performance levels, if they are able to embrace innovation as a key factor. Furthermore, the current findings implied that SMEs' managers can achieve performance level if they are willing to take risk irrespective of the level of uncertainty in the marketplace.

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