

The Innovation, Risk Taking and Proactiveness on Performance of Smes In Nigeria, The Moderating Role Of Microfinance

Institute

Sponsored by **TETFUND**

Mohammed Zannah¹Fauziah Mahat²,

Mai Idriss Aloomaa Polytechnic, Geidam Yobe State Nigeria¹ and Faculty of Economic and Management, department accountancy and Finance² University Putra Malaysia

Abstract

This study empirically examined the relationship between innovation, risk taking and proactiveness on performance of small and medium enterprises in Nigeria. And also moderating role of microfinance institute. 340 questionnaires were distributed to owner-manager of SMEs, 308 were successfully returned. Entrepreneur enhances the performance of small and medium enterprises performance through innovation, risk taking, and proactiveness. The study employs descriptive statistic Pearson correlation analysis to analysis the data. The result shows the significant and positive relationship between EO (innovation, risk taking and proactiveness) and performance of small and medium scale enterprises in Nigeria. Among the dimension of entrepreneur orientation, the research found that only innovation and proactiveness were a statistically significant predictor of small and medium scale enterprises in Nigeria, while risk taking found to be statistically not a significant predictor. The implication of the finding and recommend made was discussed at the end

Key words: Innovation, Risk Taking, Proactiveness, SMEs Performance

Date of Submission: 18-03-2021

Date of Acceptance: 01-04-2021

I. Introduction

The innovation, risk taking and proactiveness also called, Entrepreneur orientation is a central concept that occupy the literature of business in most of the countries due to the important attached to the topic. There was no generally accepted worldwide and universal definition of entrepreneur orientation, there are multiplicity of definitions of entrepreneur orientation by different research from different countries. This study focus on the impact of each dimension of entrepreneur orientation (innovation, risk taking and proactiveness) on the performance of small and medium enterprises performance in Nigeria. Entrepreneurial orientation is a strategic decision making of a firm toward success. The strategic position or attitude, which enables the firm toward entrepreneurial skill and competencies to seize the market opportunity against competitors (Covin and Wales, 2012).

The Small and Medium enterprises are the engine of economic growth of every country, in respect of developed or developing countries, it also takes the majority of the business population of most of the world countries. The sector contributed tremendously to the poverty elevation, employment opportunity, and growth of GDP. In Nigeria SMEs in term of job opportunity contribute the 70% of employment in the industrial sector and 90% of industries in the countries is Micro Small and Medium scale Enterprises, but it only contributes 1% of GDP of the country, (Ajayi 2002).

This study focuses on small and medium entrepreneurial performance using entrepreneurial orientation. The relationship between the performance of small and medium enterprises and entrepreneurial performance is significant because of important attach to SMEs in the economic development of every country (Javalgi & Todd, 2011) and the level of poverty in the country is growing very year.

SMEs in Nigeria contribute 90% of the industries in term of enterprises sector and in term of employment in the enterprise sector has contributed 70% of the employment but unlike of countries it only contribute 1% to the country GDP, Adegbite, et al (2007).

II. Literature Review

Entrepreneur orientation has its origin from Mintzberg in 1973, he define entrepreneur orientation as a strategic planning of a company which search for a new opportunity and with entrepreneur mind. This will enable the company to survive and win in the market over its competitors. EO has different dimension by

different scholar, it divided into three sub-dimension of innovativeness, risk taking and proactiveness strategic posture (miller 1983, Covin & Slevin 1991)

While on another part they view Lumpkin and Dess (1996) has added another two construct to the existing by Miller (1983) dimension it consists of innovativeness, risk taking, competitiveness and aggressiveness (Covin and Lumpkin, 2011). This study adopts (Miller 1983) in measuring EO dimension as innovativeness, risk taking, and proactiveness. Proactiveness is firm's decision to use both innovation and risk taking to produce goods and services in a market ahead of its rivals and customers, Risk taking strategy by planning and budgeting resource for the new product and services with uncertainty. Autonomy is a construct of entrepreneur orientation introduce by Lumpkin and Dess which has to do with attitude of a firm in term of promoting employees self-determination on new idea discovery or independence on new ways or act. And Competitive aggressiveness is the firm's ability to use the past, understand the present action against competitor and to predict the outcome of the future and its necessary plan.

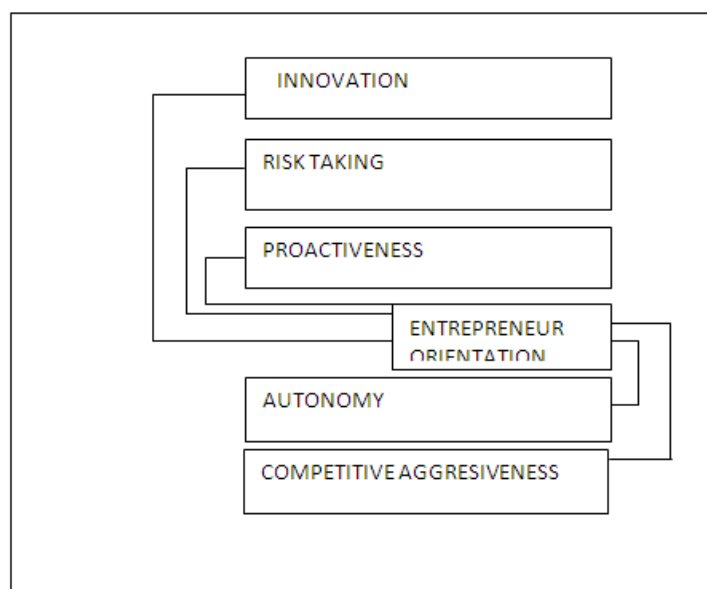


Figure 1.1 THE CONSTRUCT OF ENTREPRENEUR ORIENTATION

Entrepreneurial orientation as intangible resources of a firm consist of innovativeness, risk taking and proactiveness behavior (Covin and Wales 2012)

Resource Based View Theory

Innovativeness and SMEs Performance

Innovation is an entrepreneurial decision to engage in new technology, idea, product, services and experiment in order to modify or replace the existing one (Kumarpeli & Semasinghe 2015), they also found that innovation will create success, and increase gaining of a business in a community.

Namusonge (2016) Innovation in Nigeria is at the introductory stage there is a need for awareness and government intervention to provide basic infrastructural facilities such as electricity supply and good roads will enable the SMEs to overcome technical problems and saving the cost of capital. Ngugi et al (2013) a manager who is innovative and technologically friendly and price control will achieve profitability and firm performance at very large extent. This means innovation has a significant effect on the performance of SMEs. But Kraus et al (2012) in his studies in the Netherlands found innovativeness has no any significant impact on the performance of Small and medium scale performance.

H1: innovativeness will lead to SMEs Performance

Risk taking and SMEs Performance

Risk taking is a decision to commit a resource and involves in a venture that involves danger or risk in order to earn a profit. Kumarpeli (2015) SMEs that willingness to partake in more risk will increase profitability that will lead to success in long term. In Japan Fairouz & Hirobumi (2016) found that risk-taking is significant but not as other EO dimension because the firm is not likely assuming high-risk project. Also, Li (2016) reported that firm performance has a positive correlation to risk taking. In contrary to that Kreiser, (2013) found a negative relationship between small and medium enterprises performance and risk taking.

H2: Risk Taking has significant impact on SMEs Performance

Proactiveness and SMEs Performance

Proactiveness is a process whereby a firm produces a product for anticipated demand future by its customers ahead of its competitor in the market. Ahlin (2012) firm which is proactive and using market information useful will perform better in the market. Proactiveness has a significant positive relationship with SMEs Performance. In studies of Kraus, S. et al (2012) they have the contrary result, they found that the proactiveness has no significant and positive relationship with the performance of SMEs Performance.

H3: Proactiveness has significant impact on SMEs Performance

Table 1.1 Different between Small and Medium and Large Enterprises

	Small and medium enterprises	Large enterprise
Marketing	Ability to react quickly to response to the consumers requirements. (Market start-up overseas can be avoided costly.)	Comprehensive distribution and servicing facilities. High degree of market power with existing products.
Management	Lack of bureaucracy. Dynamic, entrepreneurial managers react quickly to take advantage of new opportunities and are willing to accept risk.	Professional managers able to control complex organizations and to establish corporate strategies. (Can suffer an excess of bureaucracy. Often controlled by accountants who can be averse to risk. Managers can become mere "administrators" who lack dynamism with respect to new long-term opportunities.)
Internal Communications	Efficient and informal internal communication networks. Affords a fast response to internal problem-solving: provides ability to recognise rapidly to adapt to change in the external environment.	(Internal communications often cumbersome: this can lead to slow reaction to external threats and opportunities.)
Qualified Technical Manpower	(Frequent lack of suitably qualified technical specialists. Often unable to support a formal R&D effort on an appreciable scale.)	Ability to attract highly-skilled technical specialists. Can support the establishment of a large R&D laboratory
External Communications	(Frequent lack of time or resources to identify and use important external sources of scientific and technological expertise.)	Ability to "plug in" to external sources of scientific and technological expertise. Can afford library and information services. Can sub-contract R&D specialist centres of expertise. Can buy crucial technical information and technology.
Finance	(Can experience great difficulty in attracting capital, especially risk capital. Innovation can represent a disproportionately large financial risk. Inability to spread risk over a portfolio of projects).	Ability to borrow on capital market. Ability to spread risk over a portfolio of projects. Better able to fund diversification into new technologies and new markets.
Economies of Scale and the Systems Approach	(In some areas scale economies of form substantial entry barriers to small firms. Inability to offer integrated product lines or systems.	Ability to gain scale economies in R&D, production and marketing. Ability to offer a range of complementary products. Ability to bid for large turnkey projects.
Growth	(Can experience difficulty in acquiring external capital necessary for rapid growth. Entrepreneurial managers sometimes unable to cope with increasingly complex organisation.)	Ability to finance expansion of production base. Ability to fund growth via diversification and acquisition.
Patents	(Can experience problems in coping with the patent system. Cannot afford time and costs involved in patent litigation).	Ability to employ patent specialists. Can afford to litigate to defend patents against infringement
Government Regulations	(Often cannot cope with complex regulations. Unit costs of compliance for small firms often high.)	Ability to fund legal services to cope with complex regulatory requirements. Can spread regulatory costs. Able to fund R&D necessary for compliance.

Research Gap

Previous studies in Nigeria use another resource like loan/credit, human resource, capital and so on, no known research use EO, and secondly research on EO is always considered to be inconclusive considering the

above literature, some found significant while others found insignificant this research will add to the finding of the previous research. And finally, it varies from country to country so the finding of one country will not generalise for all.

III. Methodology

The main purpose of this study was to examine the relation between entrepreneur orientation (innovation, proactiveness and risk taking) and small and medium enterprises in Nigeria. The moderation role of microfinance institute.

Study area and sample population

This was carried out in Northern of Nigeria and target population is the Managers and Owner of Small and Medium scale enterprises. SMEs as define by SMEDAN (2011) as enterprises employing between 10 and not more than 49 and capital of not more than 100 million Nigerian Naira as Small enterprises and any enterprises employing between 50-199 people with capital not more than 1 billion Naira as medium enterprises. Sector selected by this research include Trading, Manufacturing, Agricultural, and Services. The total of 340 questionnaires was distributed and 308 were successfully retrieved.

Method of data collection

The study has employed a Quantitative method because it involve measure of relationship between variances and questionnaire as the instrument of data collection from the respondent (Managers and owners of SMEs) as a primary source. Some secondary data were included in the study include special journal and published articles. The questionnaires have been adopted and validated through pilot study to some selected SMEs managers and moderated by experts to ensure relevancies and reliability. The research used simple random sampling, this is because to avoid discrimination and bias among the target population of the study, and make the population sample to be effective as suggested by (Fridrichs, 2008)

Data analysis

The data were analysis using Statistical Package for Social Sciences (SPSS) descriptive and inferential statistics were employed, to get the frequencies, mean and percentages. Pearson Correlation analysis was employed to examine the relationship between the dependent and independent variable (entrepreneurial orientation and SMEs performance). After the correlation analysis multiple regression analysis was conducted to find out the effect of each dimension of entrepreneur orientation to the small and medium enterprises performance. The result was made base on the result of the analysis.

Framework for measuring Performance

Base on review literature, formulated hypothesis and a theoretical framework was designed to anchor to resource base view theory on which resource of an organisation is the determinant of its performance, therefore, this study propose a model of SMEs performance (dependent variable) and Entrepreneur orientation (innovation, risk taking and proactiveness) the strategic firm resource as the independent variable and the microfinance instate serve as moderator.

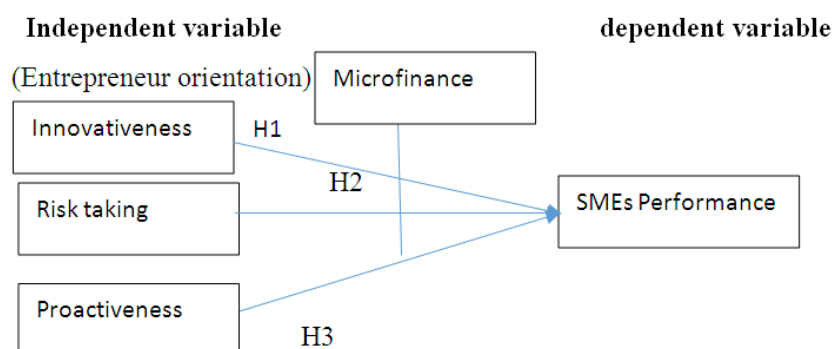


Fig 2.1 Framework of Relationship between Entrepreneurial Orientation and SMEs Performance

Data Analysis Result

Below is the table showing the SPSS result of the relationship between innovativeness, risk taking and proactiveness and the SMEs Performance.

Research question: what is the relationship between Entrepreneur Orientation (innovation, risk taking & proactiveness) and SMEs Performance in Nigeria?

Table 1: Relationship between independent variables and SMEs Performance

Variable	Y	X ₁	X ₂	X ₃
Y (SMEs Performance)	1			
X ₁ (Innovativeness)	.547**	1		
X ₂ (Risk Taking)	.614**	.550**	1	
X ₃ (Proactiveness)	.105*	.109	.040	1

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

Relationship between innovativeness and small and medium enterprise performance

The result in table 1 show innovation has positive and high significant relationship to small and medium enterprises in Nigeria and p value is less 0.05. Therefore the hypothesis is accepted.

Relationship between proactiveness and small and medium enterprises performance

The result of correlation matrix in table 1 also show proactiveness has positive and low significant relationship and at the p value of less 0.05. Therefore the hypothesis is accepted

The relationship between risk taking and small and medium enterprises performance

Multiple linear regression analysis was used to determine the predictive ability of entrepreneurial orientation (innovativeness, risk taking and proactiveness) on SMEs performance. In this regard, the factors contributing to SMEs performance are the innovativeness, risk taking and proactiveness. Therefore, the Regression Model consists of three (3) predicting variables namely; innovativeness (X₁), risk taking (X₂) and proactiveness (X₃). Hence, the prediction equation is given by:

$$\hat{Y} = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + e_i \dots\dots\dots (1)$$

Where:

\hat{Y} = SMEs performance;

B₀ = constant

B_{1,3} = regression coefficient

X₁ = innovativeness;

X₂ = risk taking;

X₃ = proactiveness;

e_i = Random error.

The proposed hypotheses, which examines the validity of the model, is expressed as follows:

Ho: $Y = \beta_0 + e_i$

H_A: $Y = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + e_i$

$Y = .915 + (.189)X_1 + (.218)X_2 + (.055)X_3 + \text{Error}$

Table 2: Multiple Linear Regression on SMEs Performance

Model	B	S.E	β	t	p
(Constant)	.915	.261		3.460	.000
Innovativeness	.198	.045	.247	4.418	.000
Proactiveness	.218	.044	.301	4.635	.000
Risk taking	.055	.041	.057	1.353	.164

Note: R² = .458; adjusted R² = .458; [F (6,301) = 44.122, p = .000]

Dependent Variable: SMEs Performance

Note:B: - Unstandardized Coefficients; S.E:- Standard Error; β: - Standardized Coefficients;

t:- t – value; p:- p – value

Innovation as predictor of small and medium enterprises performance

This result shows the relationship between innovativeness and SMEs Performance, the correlation shows ($r = .547, p < 0.05$) there is positive significant and high relationship, therefore we will fail to reject H1. Moreover, Risk taking also has high positive and significant relationship with SMEs Performance at ($r = .614, p < 0.05$) equally we will fail to reject H2. And finally, proactiveness has low positive significant relationship with the performance of small and medium scale enterprises Best on the finding we will fail to reject H3. Therefore a firm that can innovate and take reasonable risk will perform better but the level of proactiveness significance is less. This also in line with many types of research, Ngugi, et al (2013), Kurtunlmus, et al (2015).

Hierarchical Multiple Regression

Hierarchical Multiple Regression analysis was employed as suggested by Baron and Kenny (1986) and Kenny (2011) to examine the moderating effects of microfinance awareness, perception, and acceptance in the relationship between innovativeness, proactiveness, and risk-taking with SMEs performance. The moderation variable is the third variable (Z) that affects the strength of relationship between two variables X and Y.

Results of Moderating Effects between Predictor and Dependent Variables

The final objective of this research was achieved using the hierarchical multiple regression analysis and the objective are as follows

Table 3 Effect on the Acceptance of Microfinance on the Relationship between Innovativeness and SMEs Performance

Model	B	S.E	β	t	p
(Constant)	4.097	.016		255.806	.000
Acceptance of Microfinance	.199	.047	.207	4.255	.000
Innovativeness	.380	.038	.492	10.111	.000
$R^2 = .349, \text{adjusted } R^2 = .345, [F(2, 305) = 81.811, p = .000]$					
(Constant)	4.099	.016		253.010	.000
Acceptance of Microfinance	.195	.047	.202	4.129	.000
Innovativeness	.371	.039	.481	9.480	.000
Acceptance of Microfinance x Innovativeness	-.036	.047	-.039	-.782	.435
$R^2 = .350, \Delta R^2 = .351, [F(3, 304) = 54.675, p = .000]$					

a. Dependent Variable: SMEs Performance

Note: B: - Unstandardised Coefficients; S.E:- Standard Error; β : - Standardised Coefficients; t: - t – value; sig.:- p – value

Based on Table 3 acceptance of microfinance and innovativeness has a t value of 4.129 and 9.480 respectively at the significant value of < 0.05 . These significantly contribute to SME performance and after the interaction, the t value is -0.782 at the significant value of > 0.05 , therefore, there is no moderating effect and statistically not significant. This finding tally with (Mason et al., 2015)

Note: B: - Unstandardized Coefficients; S.E:- Standard Error; β : - Standardised Coefficients; t: - t – value; sig.:- p – value

Table 4. Effect on the Acceptance of Microfinance on the Relationship between Risk Taking and SMEs Performance

Model	B	S.E	β	t	p
(Constant)	4.097	.018		222.673	.000
Acceptance of Microfinance	.345	.051	.358	6.740	.000
Risk Taking	.093	.049	.100	1.889	.060
$R^2 = .141, \text{adjusted } R^2 = .135, [F(2, 305) = 25.044, p = .000]$					
(Constant)	4.094	.018		231.164	.000
Acceptance of Microfinance	.191	.058	.198	3.295	.001
Risk Taking	.098	.047	.106	2.068	.039
Acceptance of Microfinance x Risk Taking	.544	.108	.303	5.052	.000
$R^2 = .208, \Delta R^2 = .275, [F(2, 305) = 26.545, p = .000]$					

a. Dependent Variable: SMEs Performance**Note: B: - unstandardized Coefficients; S.E:- Standard Error; β : - Standardised Coefficients; t: - t – value; sig.:- p – value**

Table 4. Shows that the acceptance of microfinance and risk taking has a t value of 3.295 and 2.068 and the significance at < 0.05 , therefore they are predictors of SME performance. After the interaction the t value was 5.052 and the significance at < 0.05 and the R^2 change from .208 to .275, therefore, the strength of the relationship increases as a result of the interaction, moderation effect has been observed.

Table 5 Effect on the Acceptance of Microfinance on the Relationship between Proactiveness and SMEs Performance

Model	B	S.E	β	t	p
(Constant)	4.097	.016		260.314	.000
Acceptance of Microfinance	.092	.050	.095	1.844	.066
Proactiveness	.403	.037	.558	10.803	.000
R² = .372, adjusted R² = .367, [F (2, 305) = 90.143, p = .000]					
(Constant)	4.094	.016		253.435	.000
Acceptance of Microfinance	.097	.050	.101	1.939	.053
Proactiveness	.412	.039	.570	10.625	.000
Acceptance of Microfinance x Proactiveness	.037	.044	.042	.845	.399
R² = .373, ΔR² = .374, [F (3, 304) = 60.277, p = .000]					

a. Dependent Variable: SMEs Performance

Note: B: - Unstandardized Coefficients; S.E:- Standard Error; β : - Standardised Coefficients; t: - t – value; sig.:- p – value

Finally, the Table 5 shows the microfinance acceptance and proactiveness of t value is 1.93 and 10.625 and is significant at < 0.05 and >0.05 respectively. The meaning microfinance acceptance is not the predictor of SME performance while proactiveness is the predictor of SME performance. In case of moderation after the interacting the t value is .845 but is not significant because the p value is > 0.05 and has not changed to R². Therefore, there is no moderating effect. This support the result of (Mason et al., 2015).

IV. Finding and Discussion

The study found that there is asignificant and positive relationship between theperformance of small and medium enterprises and innovation, risk taking and proactiveness.

In a today's competitiveness nature of business manager most be innovative in term of their means of production and product itself in order to go inline with thedemand of its customers, and in order to be innovative, the is need of money. So the manager most takes arisk and commit heavily in term of collecting loan or any other source to fund the innovative requirement. It is arisk to commit resource into uncertain venture but still the risk most be measured to be reasonable. Another issue is Proactiveness, in order to gain in the market more than your competitors you most always produce goods ahead of the demand of the customer available to beat your competitor. All these are the strategic management managers take to improve their firm performance, they are called Entrepreneurial Orientation (EO). This also part of firm resources that will lead to performance Equally when the SMEs accept the microfinance loan it will increase their performance to high level.

V. Conclusion

Base on the finding of this study there is empirical evidence that innovation of goods and service will increase the performance of small and medium enterprises in Nigeria. When enterprises innovate the goods and service, it will give good look, encourage, and persuade the customer. This result in increasing market share, sales, turnover and profitability, and these are factors that used in measuring the performance of small and medium enterprises.

Also this study found that proactive has significant and low positive relationship with small and medium enterprises performance. A firm that proactive and produce it product in advance, that is ahead of competitors and customer demand. By doing so the market share will increase and get advantage over its competitors. It is concluded that a firm that is proactive in producing goods and service will perform higher compare to its counterpart that is not proactive in Nigeria.

But the third dimension of entrepreneur orientation which is Risk taking show opposite result to innovation and proactiveness.From the correlation matrix, the result show risk taking has positive relationship with the small and medium enterprises, but the regression analysis shows risk taking is statistically not significant predictor of small and medium enterprises in Nigeria. The firm that taking high risk and commit into uncertain venture may get high loss which led to liquidation of the business.

References

- [1]. Adegbite, S., Ilorin, M. Irefin, I., Aberojo, I. & Aderemi, H. (2007) Evaluation of the Impact of theentrepreneurial characteristic on the Performance of Small-scale Manufacturing Industries in Nigeria. *Journal of Asian Entrepreneurship & Sustainability*, 3(1) 1-22.
- [2]. Ahlin, B., Drnovsek, M. and Hisric, R.D. (2012) Moderating Effect of Proactivity on the Relationship between Market Information and Innovation Performance. *Economics and Business Review* 14(2)
- [3]. Ajayi, O.A. (2002). Development of Small Scale Industries in Nigeria. Workshop on Grassroots Advocacy and Economic Development. September 11-13

- [4]. Covin, J. and Wales, W. (2012). The Measurement of Entrepreneurial Orientation. *Entrepreneurship Theory and Practice* 36(4) 677-702
- [5]. Covin, J. and Lumpkin, G.T. (2011). Entrepreneurial Orientation Theory and Research, Reflections on need construct. *Entrepreneurship: Theory and Practice*, 35(5) 855-872
- [6]. Covin, J. G., and Slevin, D.P. (1991). A Conceptual Model of Entrepreneurship as behavior. *Entrepreneurship Theory and Practice*, 16(1) 7-25
- [7]. Chen, M., Fridrich, J., Goljan, M., & Lukás, J. (2008). Determining image origin and integrity using sensor noise. *IEEE Transactions on Information Forensics and Security*, 3(1), 74-90.
- [8]. Ngugi, J.K., Mcorege, M.O. & Muru, J.M. (2013). The Influence of Innovativeness on the Growth of SMEs in Kenya. *International journal of Social Sciences Research (IJBSR)* 3(1)
- [9]. Javalgi, R.G., and Todd, P.R. (2011). Entrepreneurial Orientation, Management Commitment, and Human Capital: the Internationalization of SMEs in India. *Journal of Business Research*, 64(9) 1004-1010
- [10]. Kraus, S., Rightering, J.P.C. Hughes, M. & Hosman, V. (2012) Entrepreneurial Orientation & Business Performance of SMEs, a Qualitative study from Netherlands. *Review management sciences* 6 161-182
- [11]. Kurtunlmus, B.E. & Warner, W. (2015) Entrepreneur Orientation and Perceived Financial Performance Do Environmental always Moderate EO performance Relation. 11th international strategic management conference, 2015
- [12]. Li, J. (2016) Board Advising, Risk taking and Firm Performance. *Journal of financial risk-taking management* 5 149-160
- [13]. Mason C.A., Floreani, J., Miani, S., Beltrame, F., and Cappelletto, (2015). Understanding Entrepreneur Orientation on firm Performance, The Role of Financing Structure. *Procedia Economics and Finance* 23, 649-1661
- [14]. Miller, D. (1983). The correlates of Entrepreneurship in Three Type of Firms. *Management Science*, 29(7), 770-790
- [15]. Namusonge, G.S., Muturi, W. & Olani, .O. (2016) The Role of Innovation on Performance of Firms in Nigeria Stock Exchange 1. *European journal of Research and Reflection in Management* 4(1)
- [16]. Small and medium Enterprises Development Agency of Nigeria (2011) National Policy on Micro, Small and medium Enterprises. SMEDAN Lagos

Mohammed Zannah, et. al. "The Innovation, Risk Taking and Proactiveness on Performance of Smes In Nigeria, The Moderating Role Of Microfinance Institute." *IOSR Journal of Business and Management (IOSR-JBM)*, 23(03), 2021, pp. 20-27.