The relationship between entrepreneurial orientation, market orientation, learning orientation, technology orientation and SMEs performance in Nigeria

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Abstract

In spite of the recognized significant contribution of SMEs to the nations’ economy, Nigerian SMEs performance is below expectation. Their low contribution to GDP and employment shows this gross underperformance. Moreover, the SMEs high failure rate is another indication of their low performance. Hence, past literatures suggest that strategic orientations have a significant effect on firm performance, even though most of the studies concentrated on investigating one or two strategic orientation at a time. Research on the combination of these important strategic orientations in a single model is scarce, and there is paucity about the best orientations to be adopted. The objective of this study is to investigate the positive influence of entrepreneurial orientation, market orientation, learning orientation, and technology orientation on SMEs performance in Nigeria. A cross-sectional study of questionnaire survey research design was conducted and data was generated from 362 usable questionnaires of owner-managers of small firms. To conduct the analysis, the study applies PLS-SEM to understand the positive effects of entrepreneurial, market, learning and technology orientations on the performance of SMEs in Nigeria. The results indicate that entrepreneurial, learning and technology orientations have positive affect on performance, however, in this context, the result do not support the view that market orientation positively affect firm performance. Essentially, the findings suggest that SMEs need to combine their entrepreneurial ability with learning from their environment and adopting new technology trends in the markets.

Keywords: Entrepreneurial orientation; Market orientation; Learning orientation; Technology orientation; SMEs firm performance

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1. Introduction

Over the years, Small and Medium Enterprises (SMEs) gained an increasing attention worldwide. This is because of the role they play in economic growth and development of the economies of the nations' (Yauri, Koko, & Bankanu, 2008). However, the importance of SMEs in improving economic growth and development of any nation cannot be over emphasized. As they play a significant role ranging from poverty reduction to employment creation. In particular they provide employment, improve per capita income, increasing the supply of raw materials, improved export earnings and boost capacity utilization in the key industries (SMEDAN, 2012). In view of that, the importance of high performing SMEs for any country and economy is clear. In Nigeria the contribution of SMEs to GDP and employment was 46.54% and 25% respectively (Ndumanya, 2013; SMEDAN, 2012). Therefore, the development of SMEs in Nigeria today faces severe limitations, such as lack of entrepreneurial ability, lack of management skills, marketing and technical expertise. As a result, their performance is considered to be lower than expected compared to other lower middle income countries (Ndumanya, 2013). Due to these problems among others, it is relatively difficult for SMEs to understand clearly, what strategic orientation is the most effective, especially how they can balance among a number of viable strategic orientations (Deshpande, Grinstein, Kim, & Ofek, 2013).

Several studies have shown the importance of entrepreneurial orientation in improving firm performance (Fairoz, Hirobumi, & Tanaka, 2010; Frank, Kessler, & Fink, 2010; Li, Huang, & Tsai, 2009; Lumpkin & Dess, 1996). The success of business organization including SMEs depends on their ability to understand their customers' need, competitors and timely response to other factors affecting the market. The dynamic nature of the needs and desires of customers must be given a due recognition, so that the SMEs competitive advantage could be sustained. Hence, market orientation is one of the primary strategic orientations that will give firm a sustainable competitive advantage and creates superior values to customers (Slater & Narver, 2000). However, the effectiveness of market orientation depends largely on the understanding of customer and competitor. Therefore, Calantone, Cavusgil, and Zhao (2002) indicated the importance of learning orientation in complementing the effectiveness of market orientation. They argued that learning orientation is firms’ activity of creating and using knowledge to enhance competitive advantage. Finally, a technology oriented firm seems to have the ability to obtain higher technological superiority and apply it in commercializing their products (Song & Parry, 1997). Hence, firms wishing to performed better than the competitors must have a strong technological orientation (Gatignon & Xuereb, 1997).

Several research have investigated the effect of various strategic orientations, however, they investigated different orientations separately or combination of few. There has been little research investigating the relationship between these four orientations: entrepreneurial orientation, market orientation, learning orientation, technology orientation, and firm performance. Additionally, there is scarcity of research on the best combination of orientations that will give SMEs a superior competitive advantage. Furthermore, while there is a considerable empirical literature on effect of individual strategic orientations on firm performance, the bulk of these studies examined large firm and or in well-developed economies (Haugland, Myrteit, & Nygaard, 2007; Hult, Hurley, & Knight, 2004; Narver & Slater, 1990). Therefore, there are few of such studies conducted on SMEs in developing nations like Nigeria, which limit the understanding and implementation of strategic orientations (Mu & Di Benedetto, 2011). In light of the above research gaps these study investigates the relationship between entrepreneurial orientation, market orientation, learning orientation, technology orientation and SMEs performance in Nigeria.

2. Literature Review

2.1 Firm performance

In many small business literatures, several researchers have studied the performance of SMEs. Most of this research focuses on investigating the determinants of performance of SMEs, where a number of variables were identified as a determinant of small business performance. SME performance can be seen as how a firm is providing value to its stakeholders and customers. It shows how well the managers manage resources of the firm (Moulin, 2007). According to Neely, Gregory, and Platts (1995), firm performance is a concept that often discussed in various studies, but rarely has the similar definition. Literally, firm performance is a measure of actions that lead to the achievement of firm’s aims and objectives. From a business perspective, firms achieve its objective if they are performing in meeting the needs of their stakeholders and customers' more than competitors. In other words firm achieve performance, if goals and organization's objectives are achieved in an efficient and
effective way than competitors. As a result, firm performance has been studied extensively as a dependent variable in strategic research (Hoq, 2009; Olavarrieta & Friedmann, 2008; Tang & Tang, 2012). Most of these studies use performance as a dependent variable to explain the variation of the firm performance.

2.2 Strategic Orientation and Firm Performance

Aligning effective strategies is central to any business as it enables the firm to achieve and maintain competitive advantage. Thus in order to survive firms will require a combination of diverse strategies that are appropriate for rapid environmental changes. These diversified strategies are termed as strategic orientations. However, there is no clear definition of strategic orientation, as many authors ascribe different meanings to the concept. Strategic orientations are organizational culture and complex activities that can lead to improved performance (Zhou, Kin, & Tse, 2005). Strategic orientation is an organizational believes, values and principles that guide managerial activities as well as the utilization of organizational resources (Noble, Sinha, & Kumar, 2002). In the same way, Gatignon and Xuereb (1997) contended strategic orientation as strategic activities undertaken by the firm to develop and improve organizational activities for better performance. Hence, Li (2005) referred strategic orientation as organizational cultures and believes that can have an influence on the behavior and activities of managers in an organization. The resource based view (RBV) describes strategic orientations as organizational culture that represents intangible resources of the firms (Barney, 1991). Therefore, it is clear that different authors have conceptualize strategic orientation differently but agreed on its importance for the success of business firms (Zhou, Yim, & Tse, 2005).

2.3.1 Entrepreneurial Orientation and Firm Performance

A number of literatures have recognized the relevance of entrepreneurial orientation to firm performance (Covin & Slevin, 1991; Lumpkin & Dess, 1996; Wiklund & Shepherd, 2005; Zahra & Covin, 1995). Entrepreneurial orientation is defined as organizational activities that include risk-taking, innovation, and proactive (Covin & Slevin, 1991). Entrepreneurial orientation can be seen as a specific way in which companies go about opportunities, and actions that lead to new business opportunities (Lumpkin & Dess, 1996). Entrepreneurial orientation is one of the important organizational resources that indicate firm’s willingness to innovate, explore entrepreneurial risks and to be more proactive and aggressive in approaching new market opportunities than competitors (Lumpkin & Dess, 2001). So it has a paramount importance for the future of the business organization and performance (Polat & Mutlu, 2012). Wiklund and Shepherd (2005) found that entrepreneurial orientation has a positive influence on the performance of small business. Similarly, Al-Swidi and Al-Hosam (2012) examine the impact of entrepreneurial orientation on organizational performance and found the importance of entrepreneurial orientation in improving organizational performance. Similar conclusion was reported by Zhang and Zhang (2012) that entrepreneurial orientation improves business performance positively. Thus, the following hypothesis is formulated

H1: Entrepreneurial orientation has positive influence on firm performance

2.3.2 Market Orientation and Firm Performance

Market orientation refers to a culture that stress the importance of creating value to buyer by speedy response to market information and bearing in mind the interest of the other stakeholders (Narver & Slater, 1990). A study by Farrell and Oczkowski (2002) reported that higher performance is significantly affected by level of firm’s market orientation. Also market orientation found to be a significant predictor of small sized firm performance (Kara, Spillan, & DeShields Jr, 2005). Findings by Dauda and Akingbade (2010) indicated that small business that engage their employee in market orientation activities recorded a superior performance compared to others that have not applied market orientation. Equally, a significant effect of market orientation and its components on performance was reported in study of (Alam, 2010; Idar & Mahmood, 2011). However, Mavondo, Chimhanzi, and Stewart (2005) reported that market orientation influence only financial performance. Baker and Sinkula (2009) affirmed a significant positive relationship between market orientation and firm profitability. Similarly, small firm objective performance found to be affected positively by the level of firm’s market orientation (Nikoomaram & Ma'atoofi, 2011). However, on the contrary Agarwal, Erramilli, and Dev (2003) reported that market orientation has significant effect with only subjective firm performance. Likewise, Haugland, et al. (2007) reported a modest effect of market orientation on relative productivity and no effect on return on assets. In addition, Farrell, Oczkowski and Kharabsheh (2008) reported a non-significant impact of market orientation on return on investment
although reported significant influence on other subjective performance measures. Interestingly, Mahmoud and Yusif (2012) found a significant positive effect of market orientation on both subjective and objective performance. Based on these empirical findings it can be concluded that the effect of market orientation on firm performance varies depending on the performance measure adopted in the study. Therefore, the following hypothesis is formulated.

H2: Market orientation has positive influence on firm performance

2.3.3 Learning Orientation and Firm Performance

In line with Slater and Narver (1995) market oriented firm must develop a learning orientation culture in order to be successful in the competition. This study include learning orientation which involves practices and assumptions about how organizations learn from the business environment (Sinkula, Baker, & Noordewier, 1997). Farrell, et al. (2008) stated that as a valuable resource learning orientation allows the firm to exploit opportunities and neutralize threats in business environment. Thus, firm can understand the needs of customers better than its competitors, which will result in competitive advantage. According to Wang (2008), when business organizations are learning orientated their firm will learn and develop culture and behavior that will influence performance of the organization. Farrell & Oczkowski (2002) argued that there is significant relationship between learning and performance, because it makes the organization to have a strong focus on the market, technology and environment at large. In line with this argument Nikoomaram and Ma'atooofi (2011) found that business organizations that place a high value on learning have significantly higher levels of performance. Similarly, firms that are characterized with high learning culture found to be able to challenge old assumptions about the market and reorganized their firms to achieve competitive advantage (Jimenez-Jimenez & Sanz-Valle, 2011). Hence, it was concluded that due to the basic principle of the firms learn from experience, learning can lead to improved firm performance (Mahmoud & Yusif, 2012). Therefore, the following hypothesis is formulated.

H3: Learning orientation has positive influence on firm performance

2.3.4 Technology Orientation and Firm Performance

Several studies have been conducted on the contribution of technology orientation on firm performance (Gao, Zhou, & Yim, 2007; Gatignon & Xuereb, 1997; Hakala & Kohtamaki, 2010; Hoq, 2009; Voss & Voss, 2000). Business performance can be improved through adaptive capability, therefore firms need to improve their technology orientation as a driver for adaptive capabilities (Zhou & Li, 2010). Technology orientation is business organization’s ability and willingness to develop technological mind-set and utilize it in improving or developing product and services (Gatignon & Xuereb, 1997). They found a significant relationship between technology orientation and firm innovation performance. Similarly, Gao, et al. (2007) show that technology orientation positively affects firm performance and product profitability. In a similar study on the social capital, market, entrepreneurial and technology orientations Hoq (2009) found that technology orientation has a positive influence on firm performance. A study by Mu & Di Benedetto (2011) found technology orientation has significant effect on product commercialization performance. Similar results found that technology orientation has significant positive influence on product performance, particularly in terms of newness of the product to customers (Salavou, 2010; Spanjol, Qualls, & Rosa, 2011). In line with this argument Hakala & Kohtamaki (2011) concluded that high level of technology orientation is required to maintain superior performance. Hence, the following hypothesis is formulated.

H4: Technology orientation has positive influence on firm performance

3. Methodology

The study adapted measurement based on the previous studies to the current research context (Churchill, 1979). Firm performance items were adapted from (Suliyanto & Rahab, 2012), entrepreneurial orientation ((Hakala & Kohtamaki, 2011), market orientation (Suliyanto & Rahab, 2012), learning orientation (Farrell, et al., 2008) and technology orientation (Spanjol, et al., 2011). In this study, Likert type was adopted for all the items, the respondents were asked to indicate their responses to each question on a seven point scale. Research type was a survey study and the tool to gather information was a 54 item questionnaire. The population of the research includes the SMEs located and operated in the state of Kano, Kaduna and Sokoto of the northwestern Nigeria, and target respondent are SMEs owner-managers. The sample size for this study is 347.63 approximately 348 SMEs. This is obtained from the sampling formula by (Dillman, 2007). Although the sample was increased to 522 to avoid non response problem and sample size error (Salkind, 1997). The procedure of data screening and cleaning resulted in the 362 usable questionnaires and a response rate of about 69%. Partial Least Squares-Structural
Equation Modelling (PLS-SEM) was adopted for this study because it is well enhanced to be used as a research tool in strategic management and other social (Hair, Sarstedt, Ringle, & Mena, 2012; Hulland, 1999).

4. Results
4.1 Measurement Model (Outer Model)

At first, reliability was assessed which include the individual item reliabilities (factor loading) and internal consistency reliability using composite reliability (CR) and Cronbach’s alpha. Table 4.1 shows the loading ranges from 0.64 to 0.90 which exceeded the suggested threshold of 0.50 and above (Hair, Black, Babin, & Anderson, 2010). Furthermore, Table 4.1 indicates the composite reliability (CR) values are 0.90 and higher, and the alpha values are also higher than the threshold of 0.70. These provide evidence of the construct measures’ internal consistency reliability. Equally, Table 4.1 shows all average variance extracted (AVE) values are higher than the threshold value of 0.50, providing support for the measures’ convergent validity.

<table>
<thead>
<tr>
<th>Constructs</th>
<th>Items</th>
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<th>CR</th>
<th>AVE</th>
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Finally, discriminant validity is considered, which concerns with the extent to which construct is actually different from other construct. In this study discriminant validity is assessed by taking the square root of the AVE for each construct and compared with the correlations presented in the correlation matrix. Table 4.2 shows the results of Fornell-Larcker Criterion assessment with the square root of the construct’s AVE in bold is greater than its highest construct’s correlation with any other construct. Thus, it is concluded that discriminant validity on the construct is established (Hair Jr, Hult, Ringle, & Sarstedt, 2013; Henseler, Ringle, & Sinkovics, 2009).
4.2 Structural Model (Inner Model)

The evaluation of inner model continues with an examination of the direct relationships between the independent variables and the dependent variable. The size of the path coefficients were examined through PLS-SEM Algorithm and the significance of the relationship have been examined through PLS-SEM bootstrapping procedure in the SmartPLS 2.0. The original number of cases was used as the number of cases and 5000 was used as bootstrapping samples as suggested by (Hair Jr, et al., 2013).

Based on the PLS-SEM algorithm and bootstrapping procedure, indicates the path coefficient of the independent variables and the dependent variable. The result revealed that all the exogenous variable have positive coefficient with endogenous variable. The bootstrapping result indicates that relationship between three independent variables and the dependent variable are significant at p<0.05, while one is not significant. The Table 4.3 presents the path coefficients, t-statistics and p-values. Therefore, with respects to H1, the results indicates that there is positive influence of entrepreneurial orientation (EO) on firm performance (FP) (β=1.21; t=4.12; p<0.005), therefore H1 is supported. However, H2 is not supported because the result indicates no significant influence of market orientation (MO) on firm performance (FP) (β=0.09; t=1.11; p<0.005). With regard to H3, results show significant positive influence of learning orientation (LO) on firm performance (FP) (β=1.11; t=2.11; p<0.005), so H3 is also supported. Similarly, H4 is supported as the result show evidence of positive influence of technology orientation (TO) on firm performance (FP) (β=1.12; t=1.75; p<0.005). Therefore these findings provide support for H1, H3 and H4 but not for H2.

Table 4.3 Results of Hypotheses Testing

<table>
<thead>
<tr>
<th>Hypotheses</th>
<th>Path Coefficient</th>
<th>Standard Error</th>
<th>T Statistics</th>
<th>P-Value</th>
<th>Decision</th>
</tr>
</thead>
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<tr>
<td>H1 EO -&gt; FP</td>
<td>.31***</td>
<td>.07</td>
<td>4.12</td>
<td>.00</td>
<td>Supported</td>
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<tr>
<td>H2 MO -&gt; FP</td>
<td>.09</td>
<td>.08</td>
<td>1.11</td>
<td>.13</td>
<td>Not supported</td>
</tr>
<tr>
<td>H3 LO -&gt; FP</td>
<td>.11**</td>
<td>.05</td>
<td>2.11</td>
<td>.02</td>
<td>Supported</td>
</tr>
<tr>
<td>H4 TO -&gt; FP</td>
<td>.12**</td>
<td>.07</td>
<td>1.75</td>
<td>.04</td>
<td>Supported</td>
</tr>
</tbody>
</table>

*p<0.1; **p<0.05; ***p<0.01

Other criterions for the structural model were assessed, regarding R2 the value is 0.25 which considered as acceptable as Cohen (1988) recommended 13% as moderate R-squared value. The effect size F² EO has value of 0.0452; MO has value of 0.01, LO has value of 0.01 and TO have value of 0.01 which all considered as small. Chin, Marcolin, and Newsted (2003) stressed that even the smallest strength of F² should be considered as it can influence the dependent variable in its particular ways. Next is predictive relevance, using the blindfolding procedure as suggested by (Hair Jr, et al., 2013) the Q² value 0.15 indicate a predictive relevance of the model.

5. Discussion and Conclusion

The result on EO effect on firm performance supports that of past studies stating that the entrepreneurial activities improve firm performance (Long, 2013; Wiklund & Shepherd, 2005). Therefore, EO can help Nigerian entrepreneurs to overcome the problem of weak performance if adopt high entrepreneurial behavior. In conclusion the findings suggest that the one-dimensional EO that comprise innovativeness, proactiveness and risk taking positively enhance firm performance. Contrary to what was expected, the effect of market orientation on firm performance was found to be not significant in this study. This finding confirms finding of past studies (Keskin, 2006; Polat & Mutlu, 2012). According to the results learning orientation found to enhance firm performance. This also confirmed findings of past studies that found positive effect of LO on firm performance (Farrell & Oczkowski, 2002; Mahmoud & Yusif, 2012). However, the finding is contrary to Long (Long, 2013) who studied the impact of strategic orientations on firm performance and found no significant relationship between learning orientation and firm performance. Finally, past studies suggest that technology orientation is an important factor for the survival of firms (Gao, et al., 2007; Hoq, 2009). The result of this study supports these previous findings and shows that technology orientation positively affects firm performance.

The main purpose of this article is to investigate the effect of entrepreneurial orientation, market orientation, learning orientation, technology orientation on SMEs performance in Nigeria. Moreover, the research was carried
out using empirical data from Nigeria and its results can be considered useful for developing countries, especially in Africa where there is paucity of research in this area. Consistent with the RBV, findings of this study suggest that these organizational intangible resources are important in terms of increasing the SMEs performance (Barney, 1991). The findings highlight the need for managers to be more proactive, more innovative and take risk in their investment decisions. These will improve the development of exploration and exploitation of new ideas. In addition, firm managers that need superior performance should constantly learn from their environment. Lastly, the results suggest that owners and managers of SMEs should invest more in developing new technologies and utilization of the available technologies. Therefore, based on the results of this study it has been concluded that SMEs in developing countries like Nigeria need to combined their entrepreneurial ability with learning from their environment and adopting new technology trends in the global markets. Additionally, findings indicated the need for more research in this area, mainly related to relationship between other strategic orientation and performance and possible mediators and moderators that will explain the relationship more.

Reference:


