The integration of entrepreneurial orientation and dynamic capabilities in dynamic environment of small and medium enterprises (Nigeria’s export firms)

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ABSTRACT

Small and medium enterprises (SMEs) in developing countries most especially in Nigeria have performed below expectation in their important roles of promoting and developing economic growth. This poor performance has been of great concern and disturbance to all the stakes holders (government at all levels, professionals, public and private sectors and international agencies). Responses to this critical situation culminated to yearly budgetary allocation, favorable policies, favorable pronouncement incentives and regulations giving by local government, state government and federal government. These efforts and interest of different levels of government and even international agencies to make SMEs sub-sector to be vibrant and leave to their expectation indicated that the crucial roles of SMEs are recognized and acknowledged for nation’s building. However, the situation become more disturbing, confusing and critical when the degree of poverty, unemployment and hunger that SMEs supposed to reduce continue to increase at alarming rate, in spite of all drastic measures and incentives provided yearly. This study realized it is high time to proffer sustainable solutions to SMEs particularly, introducing entrepreneurial orientations and dynamic capabilities as key variables that are necessary to improve the export performance of SMEs, building on the previous literatures that suggested the need for strategic orientations in order to exact great effect on firm performance in dynamic environment and recommend renewal and reconfiguration for SMEs.

1.0 INTRODUCTION

Across the globe today SMEs have continued to be relevant in the roles of development, industrialization, poverty reduction, wealth generation, employment provision and growth of many developed and developing countries (Ogunsiji, 2010). The realization and recognition of these roles have made SMEs a real sector of an attraction and interest to governments and all the citizens (Onugu, 2005). However SMEs have associated problems that are peculiar to its internal and external environment (Keskin, 2006). For instance, SMEs are not exporting because of lack of insufficient information on the possibilities, constraints of foreign market, the narrow attitude of the owner/managers, insufficient resources, lack of managerial expertise, week formal planning and poorly developed strategies (IZAMOJE, 2011; Nwajiuba, Amazu, Nwosu, & Onyeneneke, 2013) Other problems associated with export venturing of SMEs are establishing distribution network, promotion of product in overseas, employment of good export manager, lack of foreign channel of distribution, language and cultural differences, high foreign tariff on imported product, competition from local market (Hashim, 2005)

Government and international agencies responded to these problems by providing; Small and Medium Industries Equity Investment Scheme (SMIEIS) fund and other international agencies such as world Bank, United Nations Industrial Development organization (UNIDO), Association of Nigeria Development Finance Institutions (ANDFI), European Investment Bank (EIB), Fate Foundation Support and Training Entrepreneurship Program (STEP) United Kingdom Department For
Unfortunately, Nigerian SMEs continue to face monumental challenges such as weak strategic orientations, poor utility services, poor capabilities, poor managerial and technical skills development and lack of export market knowledge/experience (Keskin, 2006). These challenges instead of reducing continue to increase unabated. Therefore, this paper objective is to suggest entrepreneurial behavior under the guide of resources based theory and dynamic capabilities views that Nigerian environmental turbulence/dynamism can be adequately used as an important tool to improve the performance of SMEs. Hence, researchers should not ignore the fact that firm’s uncertain environment can be converted to an opportunity and proactively take advantage of the changes in environment through innovative and aggressive marketing activities (Yeoh & Jeong, 1995). For instance, international entrepreneurial capability can be described as firm-level’s ability to leverage resources through mixture of innovativeness, pro-activeness and proclivity to discover, act out, appraise and exploit business opportunities in international arena (Zhang et al., 2009). Dynamic capabilities are needed to mediate the relationship between entrepreneurial orientation and firm performance, firm uses Dynamic capabilities to recognize and act in response to opportunities and threat by extending, modifying, varying and creating a firm’s ordinary capabilities to realize first-order transformation (Drnevich & Kriauaciunas, 2011; Winter, 2003).

2.0 RESOURCES- BASED VIEW

The resources-based view conceives a firm as an embodiment of unique bundle of tangible and intangible resources, such as assets, capabilities, processes, managerial attributes, information and knowledge that are controlled by a firm (Barney, Wright, & Ketchen, 2001). Most of the literature on competitive advantages used the resources based theory presented by Penrose (1959). This theory focuses primarily on the internal development of capabilities that provide the firm with unique and presumably inimitable abilities that theoretically provide the firm with competitive advantage (Barney et al., 2001; Prahalad & Hamel, 1990). In essence the concept of value originated from the firm’s building of core competencies, which is developed from the resources a firm possess and this provide a sources of unique advantage compared to its competitor (Barney, 1991; Collis, 1991; Barney 1986). Hence, Mahoney (1995) posited that these resources and core competencies both work simultaneously to produce the basis for sustained competitive advantage

Resources-based view perceives firm specific resources such as asset and capabilities as the drivers of a firm’s business strategy (Kropp, Lindsay, & Shoham, 2006). The ability and capability to ensure better organization performance lie in superior managerial skills and knowledge (Day & Wensley, 1988; Kropp et al., 2006). Therefore, EOP and Dynamic capabilities can be viewed as resources which have potentials to enhance export performance. Internal capabilities development aided born global firm to succeed in foreign market (Knight & Cavusgil, 2004). Over the years RBV has become critical driver of export performance (Eisenhardt & Martin, 2000), 2000). RBV helps to explain how Knowledge and capabilities are developed and leveraged within an enterprise. Dhanaraj and Beamish (2003) contended that RBV should be the pillar for more conceptually rigorous building in area of export performance strategy. The following scholars declared and supported the usage of RBV to explain export performance; Cadogan, Kuivalainen, and Sundqvist (2009) and Lages, Silva, and Styles (2009).

3.0 CONCEPTUAL FRAMEWORK
3.1 DYNAMIC ENVIRONMENT

Environmental dynamism can be described as an environment with perceived instability and continuous changes (George T Lumpkin & Dess, 2001). Environmental dynamism reflects the amount of unpredictability in change of customer tastes, production or service technologies, and the modes of competition in the export firm’s principal industries (Drnevich and Kriauciunas 2011). The dynamism of firm’s environment can be shown in the rate of market and industry’s change and the level of uncertainty about the environment that is beyond the control of individual firm (George T Lumpkin & Dess, 2001; Wiklund & Shepherd, 2005). Industries that are already matured with low growth rate may still be dynamic in as much its incumbent are high performer (Kim et al., 2007). Many entrepreneurial scholars subscribed to the fact that organization needs to respond to challenging condition in a dynamic environment by adopting an entrepreneurial posture (Willund & Shephered, 2005). That is to say SMEs particularly; export firms should adopt an entrepreneurial proclivity, innovativeness, and pro-activeness to improve their lots. Environmental dynamism reflects the unpredictability in the behavior of customer, competitors and the shift in the industry’s technological conditions (Chmielewski & Paladino, 2007; Flaxter et al., 2003; Tallon, 2008). The competitors in dynamic environment exploit market opportunities or gain advantage through response to such environment by acquiring technology-based companies to expand their R &D effort, creating strategic alliance and increasing their R&D expenditures to further new product (Tallon, 2008). This stressed the need for SMEs to respond to turbulent or hostile environment with pragmatic solutions. Many scholars agreed and found evidence that environmental dynamism moderates the relationship between organizational variables and firm’s performance (Anderson & Van Wincoop, 2004; George T Lumpkin & Dess, 2001). Therefore, there are strong arguments for the need for an entrepreneurial organization, by entrepreneurial scholars in a dynamic environment culminated to the decision to select entrepreneurial orientation as the strategic orientation to experience the moderating effect of environmental dynamism on their relationship with export performance in Nigeria.

4.0 ENTREPRENEURIAL ORIENTATION

Entrepreneurial orientation can be perceived in one approach as the process of creating value by bringing together a unique package of resources to exploit opportunity (Dess, Lumpkin and Covin 1997; Slevin and Covin 1990). Some described entrepreneurial orientation as a frame of mind and
perspective about entrepreneurship that is shown in a firm ongoing process and corporate culture (Lumpkin and Dess, 2005, p.147). Nevertheless, many researchers agreed that entrepreneurial orientation is a guiding philosophy (Matsumo et al, 2002). However, these three dimensional conceptualization of entrepreneurial orientation are generally accepted in the literature, moreover, G Tom Lumpkin and Dess (1996) suggested another two additional dimensions that are really critical to entrepreneurial orientation’s perception; autonomy and competitive aggressiveness.

4.1 INNOVATIVENESS

The degree at which an organization is being characterized as being innovative is when innovation becomes one of the primary contributing factors to the success of such organization (Hult, Hurley, & Knight, 2004). Innovation can be referred to as the generation or acceptance of new ideas, process, products or services that are generally seen as new by the organization adopting it (Garcia & Calantone, 2002; Hult et al., 2004). Innovativeness can also be described as tendency and willingness to place strong emphasis on research and development, new products/services, and technological improvement, and to engage and support new ideas, product or processes (Slevin and Covin 1990 ;Lumpkin and Dess 1996) Innovativeness can also be seen as an important component of entrepreneurial orientation because it shows how new opportunities are pursued by entrepreneurial firm (Lumpkin and Dess 1996). Since the major consideration of this study is SMEs, many studies have found out that employees at all level in SMEs are involved in the innovative process and new product development always take the form of developing new methods of marketing the same product to the consumer, thus innovation can be innovation through differentiation or innovation through personal service (Hartman, Tower, & Sebora, 1994; O'Donnell, Gilmore, Carson, & Cummins, 2002; Sullivan & Kang, 1999)

Risk taking ; the second basic components of entrepreneurial orientation is risk taking, in the perspective of entrepreneurship, risk taking is about resources’s allocation, decision making, choice of product and market (Venkatraman, 1989). Risk taking can also be referred to as the extent to which managers are prepared to make a large and risky resource commitment, which may have a reasonable change or costly failure, yet, this risks are calculated risk, extreme risk that involve reckless decision making is identified and avoided (Davis, Morris, & Allen, 1991). Basically, entrepreneurial firms operate within hesitant environment, most especially, when entering with new market with new products; they undergo testing and naturally working under risky atmosphere (Lumpkin and Dess1996; Dess and Lumpkin 2005).

Pro-activeness refers to a firm’s promptness to get hold of new opportunities (Dess Lumpkin 2005, p. 150). Pro-activeness is characterized with continuously scanning and searching the environment for new opportunities (Frese, Brantjes, & Hoorn, 2002). Competing in an aggressive manner by initiating bold and risky strategies most especially in hesitant situation demonstrates pro-activeness). A firm is said to be pro-active when it has opportunity to be a pioneer and subsequently posses a distinct ability to capitalize on emerging prospect (Wiklund & Shepherd (2005). An entrepreneurial firm may be required to adapt, preserve, and assume responsibility in order to accomplish some tasks, therefore it is when an organization can exhibits pro-activeness, risk taking and innovativeness that it is well thought out as an entrepreneurial firm. In a nutshell, innovativeness comprises of new product lines, product modification and R&D leadership, while pro-activeness entails adoption of new techniques, competitive posture, environmental boldness and decision making styles. Risk taking involves borrowing heavily, entering unknown markets and undertaking risky projects (Covin & Slevin, 1991).

4.2 DYNAMIC CAPABILITIES

Dynamic capabilities theory was built on the groundwork of economy anticipated by Schumpeter (1994), Penrose (1959) and Teece, Pisano, and Shuen (1997) This theory build up a frame work to give details on whether distinguishing and difficult to duplicate advantages can be built, maintained
Dynamic capabilities were developed from the resources base view of the firm (1992; Verona, 1999). The two theories postulated that firms are diverse in the strategic resources they manage; however, they are different on how they approach the mobility of the resources (Teece et al., 1997). Resources base view theory posited that resources are stable and static; while DC theory stressed the need to renew, acquire, develop, and reconfigure their resources and this leads to resources mobility in the long run. Hence, RBV cannot explain firm behavior and performance over time in a dynamic environment (Teece et al., 1997). Dynamic capabilities are about mechanism for bringing organizational change and it is associated with the complex problem of change measurement that has constituted serious setback for organizational growth (Easterby-Smith, Lyles, & Peteraf, 2009). It is equally attached to the issues of strategic renewal, adaptation and growth, it involves temporal dynamism, including capabilities life cycles (Helfat & Peteraf, 2003).

Therefore, dynamic capabilities are needed to mediate the relationship between entrepreneurial orientation and firm performance, firms use Dynamic capabilities to recognize and act in response to opportunities and threat by extending, modifying, varying and creating a firm’s ordinary capabilities to realize first-order transformation (winter, 2003; Drnevich and Kriaciunas 2011). The contributions of Dynamic capabilities to firm’s performance may occur in several ways; first, dynamic capabilities can positively affect firm performance by allowing the firm to identify and respond to opportunities through developing new processes, product and service which has the potentials to increase revenue (Chmielewski & Paladino, 2007; Makadok, 2010). Second, dynamic capabilities can improve the speed of efficiency with which a firm operates and respond to changes in its environments. (Hitt, Ireland, Camp, & Sexton, 2001) This ability to improve response speed efficiency and effectiveness with respect to dealing with environmental changes can positively affect firm’s performance by allowing the firm to take advantage of revenue attractive opportunities and adjust its process to cut expenses (Drnevich and Kriaciunas 2011). Third, Dynamic capabilities offer formerly not available options for the firms and thus make available the potentials for greater performance contribution such as increase revenue or profits (Eisenhardt and Martin, 2000; Zhu 2004). That is to submit that Dynamic capabilities have enablement to improve upon the contribution of ordinary capabilities by extending existing resources configuration in conduct that the outcome is entirely new set of decision options (Drnevich and Kriaciunas 2011).

Therefore, dynamic capabilities will extend, modify, change, create, and re-create ordinary capabilities in response to environmental dynamism and thus play a basic roles in changing routines and in ensuring that the firm can change on the whole operation and have new set of decision alternatives (Eisendhardt, 1989; Eisendhardt and Martin 2000; Winter, 2003).

5.0 EXPORT PERFORMANCE

Several studies have demonstrated that there is consensus that entrepreneurial orientation influences and have positive relationship with export performance (Okpara & Kabongo, 2009) Literatures like Wiklund and Shepherd’s (2003); Jogaratnam and Tse (2006); Yeoh and Jeong, (1995) established that entrepreneurial orientation is positively related with firm performance. Extending the firm operations into new market environment may present an imperative opportunity for growth for SMEs in developing countries i.e. Nigeria that its products are already saturated in domestic market (Jantunen, Puumalainen, Saarenketo, & Kyläheiko, 2005). This study is more concerned about how more attention should be paid to examination whether or how additional value is created in exporting
of SMEs considering the attitude of the managers who are still skeptical whether strategic orientation like entrepreneurial orientation really lead to higher performance and fears of competitors when exporting their products (Jantunen et al., 2005). The view is to further stress that SMEs that chooses to export their product in innovative and creative ways stand to achieve significant gains (Zahra & George, 2002). Therefore, the underlying principle for investigating entrepreneurial orientation and dynamic capabilities in turbulent environment (Nigeria business environment) is to advance understanding of their linkage with export performance. Hence, in Nigeria’s environment, less researched developing country required a systematic understanding of the relationship between entrepreneurship, dynamic capabilities renewal’s process, reconfiguring capabilities and export venturing (Dess et al., 2003).

CONCLUSION

The small and medium enterprises’ potentials and opportunities to carry out the roles of engine of growth poverty reduction, generation of an employment, development and industrialization are not mirage but possible. In order to realize these potentials there should be a pattern shift of focus instead of primordial tendency of noisy pronouncements to a realistic thorough approach from government to sort out the recognized problems. This study subscribed to the literatures that acknowledged that the problems of SMEs are not only finance but more importantly, managerial ineptitude (Onugu, 2005; Oguniji, 2010). The utilization of resources whether incentives given by the government or generated by the owner must be optimally leveraged. Even though developing entrepreneurial culture seems to be costly they will result in benefits to firms operating in turbulent environment like Nigeria (Jantunen, 2005). This study makes contribution to the literature of SMEs, particularly, exporting SMEs in Nigeria which is believed to be under researched. It supports other researches to suggest that it is not only the firm’s entrepreneurial orientation and export performance but the ability of an entrepreneur to create new asset configuration that have effect on performance in foreign market. Hence, SMEs should be innovative, aggressive, pro-active and take calculated risk to survive in Nigeria turbulent environment; the promoter/manager should think less on funding in the successful development of his enterprise but rather ready to learn and develop learning capabilities so that they can improve their capacity to achieve and sustain competitive advantage. Owner managers of SMEs should embrace science and technical education; they should practice partnership and equity participation, SMEs should maintain quality in production, they should honor payment obligations, management staff of SMEs should be developed.

Government should leverage renewal strategy on incentives giving to SMEs and reconfigure contribution in the following dimensions; revamping all old Industrial Development Centre and establish new ones (IDCs); establishing SMEs clusters; upgrading rural urban road and railway network and provide necessary infrastructural facilities; providing National Rehabilitation Fund for SMEs; reducing tax rate to barest minimum; buying only made in Nigeria should be institutionalized; involving research and development Council (RMRDC) in sourcing appropriate equipment and facilities for SMEs; establishing consortium comprising Banks and research institute; establishing realistic industrial policy. The renewal, reconfiguration and recombining strategy on Small and Medium Enterprises Development Association of Nigeria (SMEDAN) and other international agencies that contribute to the welfare of SMEs; giving responsibilities to SMEDAN to provide capacity building and skill upgrading; identifying sources of funds with better interest for SMEs; providing education department to be responsible for public enlightment, training and education of SMEs owner/manager; providing marketing are distribution channel for SMEs.

REFERENCES


