Evaluating the Effects of Entrepreneurial Orientation and Managerial Skills on Small and Medium Enterprises Performance in Lagos State

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Abstract - The aim of the research was to examine the influence of entrepreneurial orientation and management skills on the performance of Small and Medium Enterprises (SMEs) in the state of Lagos, Nigeria. Quantitative survey research design was adopted, and multiple regression method of analysis was employed for the research. The population was 11,663 registered SMEs in Lagos State. Cochran's sample sizing was used to determine the sample size of 500. From the total of 500 questionnaires distributed, 473 were completed and returned, which corresponded to a response rate of 96.6%. The data collected were analyzed using both descriptive and inferential statistics. The results shows that entrepreneurial orientation practices have a positive and significant effect on profitability (β = 0.110, t = 1.904, p<0.05). However, management skills have a positive but not significant influence on the profitability of the selected SMEs (β = 0.030, t = 0.532, p>0.05). The research recommends that operators in this economic sector should look deeply at the variables of the research as essentials for improving business performance. It also put forward that Small and Medium business owners or managers should not be afraid of taking calculated risks as this would ensure their profitability.

Keywords: entrepreneurial orientation, managerial skill, small and medium enterprises (SMEs), SME performance

I. INTRODUCTION

Small and Medium Enterprises (SMEs) are the backbone of the world economy, accounting for most businesses across nearly every region (Runde, Savoy, & Staguhn, 2021). They also reveal that in developing economies, SMEs make up 90% of the private sector and create more than half of the jobs in their respective nations. In view of SME global significance, industrialized economies around the world have placed greater emphasis on establishing a dynamic SME sector to achieve a sustainable and stable economy. According to Birech, Karoney, and Alang'o (2018), SMEs are an important part of the economies of both developed and developing countries. According to Emmanuel. (2017), Ngetich and Kithae. (2020), SMEs are an appreciated and significant tool for quick diversification and recovery of the economy.

Entrepreneurial Orientation (EO) as a concept is the process through which a company explores creative entrepreneurial opportunities without regard to the type or number of resources available. EO is a component that helps companies expand by supporting them in identifying new possibilities and gaps that they may exploit through risk-taking, proactiveness, innovative products, and aggressively marketing their products (Dzomonda & Masocha, 2018). Olubiyi et al. (2019) maintain that EO is an essential predictor for a company’s long-term performance and, as a result, contributes to its success. An entrepreneur needs to exhibit four traits to be successful and avoid premature failure: creativity, self-efficacy, internal control point, and achievement motivation (Imran et al., 2019). Scholars have linked these traits to EO to establish their relationship with sustainability and performance.

Managerial skills (MS) are one of the necessary impulses that stimulate the success rate of SMEs firms around the world (Asenge & Agwa, 2018; Abdul 2018; Sitharam & Hoque, 2016; Jayeola, Ihinmoyan, & Kazeem, 2018). Understanding, developing, and utilizing people (resources) and their abilities to meet the company’s goals is the practice of managerial skills.
An SMEs that lacks human resource management abilities may be doomed. To avoid this, Emmanuel (2017) opines that entrepreneurship education is required to instil entrepreneurial competencies and abilities in its beneficiaries to orient their thoughts toward self-reliance and self-employment.

Several references have shown that SMEs are not only important drivers of employment and prosperity, but also lead the way in promoting entrepreneurship, competition, and innovation that lead to long-term success, growth, and development (Fatokki, 2014). Pulka (2019) posits that SMEs performance is the ability to harness, integrate, and utilize various internal and external resources with timely and appropriate reconfiguration to achieve a targeted set of objectives and performance capable of providing employment opportunities, GDP growth, export, and raising society’s standard of living.

According to the Department of Business, Energy and Industrial Strategy, there are 5.7 million SMEs in the UK Business, Energy, and Industrial Strategy (Dey et al., 2019). According to Ncube and Chumucheka (2019), SMEs operating in the United States are responsible for 99.7% of all business activity in the country. The solid growth pattern established by EU-27 SMEs in the second half of the previous decade was carried over into 2019. According to Muller et al. (2021), with the number of EU-27 SMEs increasing by 1.5%, their value-added increasing by 3.8%, and their employment increasing by 1.5%, SMEs were a big part of this year’s strong growth.

According to the OECD (2020), it is reported in China, more than 98.64% of all firms are small businesses with 300 or fewer employees, contributing to over 60% of total GDP, 50% of tax income, 75% of job creation, and 68% of exports. In 2018, new business creation reached record highs with a total of 67.0 million new companies being created, increasing by 10.4% compared to 2017.

The Malaysian Institute of Economic Research (MIER) indicates that SMEs comprise 90% of total manufacturing establishments, 29.7% of the employment population, resulting in 20% of total GDP of the economy (“Small and Medium Industries”, n.d.).

According to Runde et al. (2021) in Africa, SMEs account for over 80% of jobs on the continent, making them a key driver of economic growth. In Sub-Saharan Africa alone, there are 44 million micro, small, and medium-sized businesses, with nearly all of them being tiny. In Kenya, SMEs account for over 40% of total GDP, over 50% of new jobs, and 80% of the total workforce (Muriithi, 2017). According to Hongyun et al. (2019), SMEs in Ghana alone account for 85% of employment in the manufacturing sector, which has resulted in about 70% of Ghana’s GDP, and it is also responsible for their economic development.

In Nigeria according to PwC (2020), SMEs account for 96% of the total number of businesses in the country and contribute about 50% to the national GDP. In terms of ownership structure, 73% of MSMEs are sole proprietorships while 14% are private limited liability companies. The balance of 13% is partnerships (6%), faith-based organizations (5%), cooperatives (1%), and others (1%). On the world stage, Small and Medium Enterprises (SMEs) play an enviable role in economic development and growth, job creation, and poverty alleviation. SMEs in Malaysia account for 90% of total manufacturing operations, 29.7% of the employee population, and 20% of the total GDP (“Small and Medium Industries”, n.d.). Similarly, Dey et al. (2018) and Olubiyyi et al. (2019) find that despite SMEs’ performance in Nigeria and the bleeding that came with it, some companies experienced suboptimal performance characterised by low market share, poor sale growth, and poor profitability of some SMEs. Unfortunately, the current challenges are establishing a precedent for a high rate of closure of some SMEs, particularly in developing countries without jeopardizing profits. Kowo, Adenuga, and Sabitu (2019) have the view of other scholars that in Nigeria Small and Medium Enterprises generate more employment opportunities on the aggregate than giant industries. The scholars allude that many people in this country depend on self-employment for sustenance. Many others including their relations are employed in the enterprises directly and indirectly. In the face of the stated contributions of SMEs to the Nigerian economy, they have not lived up to the anticipated dynamic role in the microeconomic growth and development of the country’s economy. According to Aroyeun et al. (2019), it can be attributed to the changing environment of SMEs in Nigeria, as well as poor technological development and lack of entrepreneurship orientation and management skills which has compromised the stability of its expected performance. Because of the persistent failure rate, high operating costs (which largely embody other problems), many of these firms are finding it increasingly difficult to compete with large local firms and the influx of cheap imported products from China and other advanced countries.

Considering past related studies, no known studies to the best of researcher’s knowledge have empirically focused on the combined effect of entrepreneurial orientation (EO), and managerial skills on SMEs’ performance among computer and allied products in Ikeja, Lagos State. It serves as the novelty and uniqueness of the research. Thus, the research examines the combined effect of entrepreneurial orientation (EO), and managerial skills, on SMEs’ performance in Lagos State. The hypotheses formulated are based on the objectives and research questions.

H₁: Entrepreneurial orientation and managerial skills have no combined significant effects on SMEs performance proxied with profitability of SMEs in Lagos State, Nigeria

Miller (1983) and Covin, Green, and Slevin (2006) create the concept of entrepreneurial orientation, which is based on the three dimensions
of innovation, proactivity, and risk-taking. As a result, these dimensions work as a cohesive whole to provide a company with the strategic direction it requires for success, and it should be viewed as a one-dimensional measure in entrepreneurship research. Hussain, Ismail, and Akhtar (2015) posit that EO has become over the last two decades, the concept has become increasingly important in the global arena of and entrepreneurship literature. Neneh and Van Zyl (2017), EO is a strategic process, practices, and decisions that decision-makers use to formulate the organizational purpose and directions of the company, as well as to maintain its vision and archive a sustainable competitive advantage. Adegbuyi et al. (2018) posit strongly that entrepreneurial orientation is not negotiable for SMEs that want to prosper in a competitive business environment. Similarly, Jamal (2020) argues that entrepreneurship is the practice of establishing one’s own business that makes it different from other types of economic activity based on identifying opportunities. In addition, Fatoki (2019) opines that EO is a predetermined decision-making stimulus that encourages entrepreneurial activity. Thus, EO is the process by which an organization pursues innovative entrepreneurial opportunities without being constrained by the type and quantity of available resources. The role of entrepreneurs in today's society cannot be ignored as they are responsible for all organizational success. Therefore, EO provides a strong basis for business firms to act and perform more entrepreneurially, followed by strategy-oriented actions and decisions (Hossain, & Asheq, 2019).

Well-implemented managerial skills should identify the skills required for the job roles, the skills of individual employees, and any gap between the two. In light of the findings, Bushe (2019) affirms that a company also thrives on human skills to operate these devices. According to Mbugua and Mbugua (2019), a successful manager understands his environment, both internal and external. He or she does not only understand but is prepared, equipped, and ready to handle any turbulence that emanates from the environment. A lack of human resource management skills can be doomed for a small business. To increase the entrepreneurial capacity, the Federal Government of Nigeria, has made most tertiary institutions in recent times to have incorporated entrepreneurship education into their curricula as a means to stimulate self-reliance and self-employment in the society. In developing countries, poor management skills have a significant impact on the performance of SMEs. Entrepreneurs must be experienced, knowledgeable, and highly motivated to run Small and Medium businesses.

Small and Medium businesses should prioritize human capital management and relationship skills, as management skills are a prerequisite for relationship quality and competitive advantage. However, Asenge and Agwa (2018) observe that entrepreneurial competencies or skills implicitly require that entrepreneurs differ from non-entrepreneurs in terms of their competencies. The skills and characteristics of entrepreneurs are called entrepreneurship competencies. Another view of management skills that are critical for SMEs involve: 1) planning skills to allocate resources and develop alternatives, 2) organizing skills for creating structures, coordinating parts, shunting delegations, and controlling conflicts and changes in an organization, 3) the spearhead of expertise in implementing decisions, creating enabling environment, shaping routes and training of staff, 4) skill control for setting levels, evaluating performance, taking action when there is need, and encouraging self-mastery (Olowu & Aliyu, 2015). Management skill is therefore the process of recognizing and organizing the sluggish ability of an individual to lead to success in any undertaking through effective and efficient use of all available resources.

The research is primarily based on Porter's generic competitive advantage theory, with a particular emphasis on the third part of his competitive advantage strategies, as well as the focus strategy. The theory shows that Porters' focus strategy has several key advantages over the market strategy that would make companies adopt such a strategy to be more efficacious in product promotion efforts. Accordingly, compared to a mass-market strategy, a focused company does not have to concentrate significant resources to offer all people everything that costs less time and money. Interestingly, it has been empirically proven that customers value specialized firms because of their focused skills. After all, a focused company is less likely to be overwhelmed by numerous customer inquiries and is more likely to recognize and adapt to market changes in a quick time manner. Porter (1985) notes that companies pursuing a focusing strategy should offer either a differentiated product or service for the segment and an inexpensive product or service to the selected segment. He stresses that a combination of the two was not achievable, and he refers to companies that have such a combination as being stuck in the middle. It is a situation where firms are unwilling and unable to make strategic decisions that allow them to muster enough resources to compete by whatever means and thus prevent them from gaining any competitive advantage or advantage lead above-average performance. Consequently, Porter’s perception of competitive advantage as the only possible one with a clear focus on segments, followed by a clear cost or differentiation strategy, while the last one is easier to achieve in his opinion. Michael Porter’s focus strategy has been developed or moved into the spotlight at a time when companies were facing increasing competition.

Several empirical studies have been carried out by various scientists to determine the relationship between EO and business performance. Kura, Abubakar and Salleh (2019) examine the role of competitive intensity in moderating the relationships between entrepreneurship, total quality management, and SMEs performance in Kano state. They used a sample of 714 self-administered questionnaires to owner managers of SMEs in Kano and Kaduna in the
North West geopolitical zone of Nigeria. Partial Least Squares Structural Equation Modeling is used to test the hypotheses (PLS-SEM). The results showed a positive and significant relationship with the profitability of SMEs. Ibrahim and Mustapha (2019) examine the factors influencing SMEs performance in Nigeria. The research uses structured questionnaires to collect data from 240 SMEs in North Eastern Nigeria. The results reveal a positive and significant relationship between Entrepreneurial Orientation and SMEs performance. Aroyeun et al. (2019) conduct research to examine the relationship between entrepreneurial orientation and the performance of SMEs, using a descriptive research design to obtain data from registered SMEs in Nigeria recorded by the Corporate Affairs Commission. The information is obtained through the distribution of a structured questionnaire to 436 SME owners/managers. To test the hypothesis, the research uses the structural equation modeling of AMOS 22. The statistical analysis results show that all dimensions of entrepreneurial orientation, such as business opportunities, including innovation, dynamic operations, and value creation activities have a significant influence.

Abdul (2018), on the management skills and growth of Small and Medium Enterprises (SMEs), did a comparative analysis of Nigerian and minority entrepreneurs in the UK using an online survey to bring in data from a population of 38 SME owners in Nigeria and UK. Due the short time, the research uses judgment samples to examine their experiences, values, and attitudes about entrepreneurial skills. The results show that management skills have a major impact on the performance of SMEs in Nigeria and the UK. Similarly, Mbugua and Mbugua (2019) examine the role of business management on the growth of micro and small enterprises (MSES). A case of textile enterprises in Eldoret Town−Kenya. The result shows that management skills have a positive and significant impact on the performance of SMEs. Lawal, Worlu, and Ayoade (2016) examine the factors that influence the extent to which SMEs can operate sustainably. In exploring theories that underpin entrepreneurship and drivers of sustainable entrepreneurship among SMEs, the research used secondary data. The results show that management skills have a positive impact on the performance of SMEs.

Ngetich and Kithae (2020) conduct research on access to business information, business finance, managerial skills, and performance of SMEs in Kenya. The research seeks to establish factors affecting the performance of SMEs, and the result shows that managerial skills significantly impact the performance of SMEs. In addition, Eton et al. (2017) aim to determine the role played by entrepreneurial skills with regards to the performance of SMEs in Uganda’s Nebbi district which lies in the West Nile region. The research uses simple sampling techniques, with a sample size of 106 people selected for the survey using a questionnaire. According to the result, there is a moderate correlation between entrepreneurial skills and the performance of SMEs. Syed, Muzaffar, and Minna (2017) examine the three dimensions of Entrepreneurial Orientation (EO) of manufacturing sector SMEs in Punjab, Pakistan. The effects of three EO dimensions including innovativeness, pro-activeness, and risk-taking are analyzed. They finally report significance and positive relationship with SMEs performance.

II. METHODS

The research adopts quantitative survey research design and employs multiple regression method of analysis. The adoption of this design is influenced by the research problem and its corresponding research questions. The pool of SME operators contacted was computer and allied product dealers in Ikeja Lagos metropolis, Lagos state. 500 SMEs representing the sample size are deduced using Cochran sample size determinant. Simple random sampling technique is used for questionnaire distribution. The questionnaire is the main instrument used in collecting data, which is self-administered. It is divided into Section A and Section B. Section A consists of demographic-related questions of the selected SMEs and their operators, while Section B consists of questions of the selected SMEs and their operators.

The operational model for the research variables is denoted in the equations:

\[
Y = f(X) \quad (1)
\]

Where:
- \(Y\) = Dependent Variable
- \(X\) = Independent Variable

\[
y_1 = \text{Firm Profitability (FPR)}
\]

\[
x_2 = \text{Management Skills (MS)}
\]

Where:
- \(y_1\) = Entrepreneurial Orientation (EO)
- \(x_1\) = Independent Variable

The models formulated for each of the hypothesis are written as:

\[
y_1 = \beta_0 + \beta_1x_1 + \epsilon_i \quad (2)
\]

\[
FPR = \beta_0 + \beta_1EO_i + \beta_2MS_i + \epsilon_i \quad \text{-------------------------} \epsilon_i \text{ error or stochastic term}
\]

\[
\beta_0 = \text{constant of the equation or constant term}
\]

\[
\beta_1, \beta_2 = \text{Parameters to be estimated}
\]
The hypotheses formulated are tested using the multiple regression analysis. The results are presented in Table 1.

Table 1 establishes the convergent validity of the instrument using the average variance extracted (AVE) with a threshold of 0.5. Composite reliability (CR) calculator by Raykov (1997) was used for the computation for the composite reliability estimate based on standardized factor loading and error variance. Table 1 reveals CR to be between 0.850 and 0.905 above the threshold of 0.7. Therefore, evidence exist to show that the instruments have the ability to measure the latent construct they are related to and the extracted instruments are also found to be internally consistent with the latent loaded variables in the research.

### III. RESULTS AND DISCUSSIONS

The multiple regression results for the influence of entrepreneurial orientation, managerial skill on the profitability of the SMEs in Lagos, Nigeria are presented in Table 2. The results reveal that entrepreneurial orientation ($\beta = 0.110, t = 1.904, p = 0.057$) has positive and significant effects on the profitability of the SMEs in Lagos State, Nigeria. However, management skills ($\beta = 0.030, t = 0.532, p = 0.595 > 0.05$) are reported to have a positive but insignificant effect on the performance of the selected SMEs. It implies that entrepreneurial orientation is an essential predictor for the profitability of the selected SMEs in the study area.

The results further show that the independent variable (Entrepreneurial Orientation, Management Skill) explains 45.6% of the changes or fluctuations in the profitability of the selected SMEs in the state of Lagos, Nigeria (Adj. $R^2 = 0.456$).

However, the representation does not expound for the 54.4% of the variability in the profitability of SMEs, which means that other factors related to the profitability of the selected SMEs in Lagos state are not captured in the model. Adjusted $R$-squared is slightly lower than $R$-squared, implying that the regression model may have been over fitted by including too many independent variables. It indicates that the set of independent variables are important factors that needed improvement to improve the profitability of the selected SMEs in the study area. Furthermore, the analysis of variance (ANOVA) results in for regression coefficient, which are used to test the significance of the overall regression model, showed an $F$-ratio of 96,151 with a $p$-value of 0.000 that is less than 0.05 [$F = 96.151, p = 0.000$]. It shows that the overall model is significant in predicting the effect of independent variables on profitability of the selected SMEs. This means that at least one of the independent variables has an effect on the profitability of the selected Small and Medium business enterprises in Lagos State.

In addition, the regression model used to predict the profitability of the selected food and beverage manufacturers in Lagos State, the independent variable that is statistically significant, was retained in the model, while variable(s) that are not statistically significant were excluded (has no predictive power). The multiple regression equation from the results is thus expressed as:

$$FPR = 5.502 + 0.110EO + 0.198MS$$

Where:

- $FPR$ = Profitability
- $MS$ = Managerial Skill
- $EO$ = Entrepreneurial Orientation

From the regression equation, it was found that the entrepreneurial orientation, management skills will be constant (at zero) and the profitability of the selected SMEs will be 5.502. The results show that entrepreneurship ($\beta = 0.110, t = 1.904, p$
Entrepreneurial orientation has a positive and important impact on the growth of SMEs (Kura, Abubakar, & Salleh, 2019; Ibrahim & Mustapha, 2019; Aroyeun et al., 2019; Bamfo & Kraa, 2019). In addition, Sitharam and Hoque (2016), Bushe (2019), Hanggraeni et al. (2019) find a significant relationship between entrepreneurial orientation and its dimensions for SMEs success in their studies. The results for managerial skills are consistent with Abdul (2018), Lawal et al. (2016), Mbugua and Mbugua (2019), and Jayeola et al. (2018) who accept that managerial ability has a major impact on SMEs growth and efficiency.

IV. CONCLUSIONS

The evaluation of the effect of entrepreneurial orientation and managerial skills on the performance of SMEs in Lagos State is examined. According to the findings, entrepreneurial orientation and managerial ability have a major impact on the success of SMEs in Lagos State, Nigeria. Entrepreneurial orientations and managerial skills are critical for success. The research makes a number of recommendations for various parties involved in the improvement of SMEs in Lagos State, as well as Nigeria as a whole.

Entrepreneurial orientation and managerial skills, according to the research, are a requirement for improving business performance in this field.

The research contribution in the area of performance measurement therefore lies in its ability to adopt balanced measures of business performance by including a more recent, intangible and externally focused measure (EO and MS).

The current research involves Ikeja division of the five divisions (Ikeja, Badagry, Ikorodu, Lagos Island, and Epe) of Lagos State. Therefore, the results are not the overall description of SMEs in Lagos State. The research has limitations in terms of number of the respondents, so it is recommended for future research to conduct a similar study in different countries or regions before attempting to a more general result. Future studies could take into account other performance-determining factors, new markets, and a broader scope by extending the research to other Nigerian states.

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