

Effect of Entrepreneurial Orientation on Smes Performance in South-West, Nigeria.

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Abstract:

This study examined the effect of entrepreneurial orientation on SMEs performance in South-West, Nigeria. The study adopted the survey research design of which questionnaires were administered to a sample of (399) SMEs owner/manager in South-West. The responses were analyzed using the smart PLS-SEM. It was found that pro-activeness and autonomy has a positive and significant effect on SMEs performance in North Central, Nigeria. It was recommended that SME owners and managers should adopt a forward-thinking and opportunity-driven mindset in their strategic and operational decision-making processes. This will enable them to anticipate market trends, respond swiftly to changes in customer preferences, and stay ahead of competitors. Lastly, SME operators should reduce excessive centralization by delegating authority and empowering staff to explore creative solutions and act on emerging opportunities.

Key Words: Entrepreneurial orientation, pro-activeness, autonomy and SMEs Performance.

Introduction

Entrepreneurial orientation (EO) has emerged as a critical determinant of business success, especially for Small and Medium-sized Enterprises (SMEs) operating in competitive and dynamic environments. Entrepreneurial orientation refers to the strategic posture of a firm that encompasses innovativeness, proactiveness, and risk-taking behavior, which are essential for navigating uncertainty and achieving sustainable growth. In the context of Nigeria

particularly the North Central region, where SMEs are vital to local economic development entrepreneurial orientation plays a key role in enhancing firm performance amid infrastructural and institutional challenges (Olaleye & Adebayo 2023). SMEs in North Central Nigeria that exhibit higher levels of EO tend to outperform their counterparts in terms of market expansion, customer acquisition, and profitability. The adoption of entrepreneurial strategies significantly improves SMEs' resilience and adaptability in Nigeria's volatile economic climate. Despite its relevance, EO remains underexplored in the region, necessitating empirical studies that can provide deeper insights into its role in shaping SME performance outcomes (Lawal & Musa 2022).

Small and Medium-sized Enterprises (SMEs) are widely recognized as critical drivers of economic development in both developed and developing nations, primarily due to their significant role in job creation and poverty reduction. However, despite their acknowledged importance, the performance of SMEs in Nigeria has remained suboptimal, marked by high failure rates, limited scalability, and low levels of innovation and competitiveness. According to a survey conducted by the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN, 2019), only about 20% of SMEs in the country survive beyond the first five years of establishment. Similarly, data from the Nigeria Employers' Consultative Association (NECA) indicates that approximately 80% of SMEs in Nigeria cease operations within their first five years. This is consistent with findings from a joint study by

the National Bureau of Statistics (NBS) and the United Nations Development Programme (UNDP, 2021), which reported SME failure rates ranging between 60% and 80% within the initial three to five years. Such underperformance presents a major challenge to the economic stability and growth potential of the North Central region. It is within this context that the present study seeks to examine the effect of entrepreneurial orientation on the growth of SMEs in South-West, Nigeria.

The main objective of the study is to examine the effect of entrepreneurial orientation on SMEs performance in South-West, Nigeria and more specifically to:

- i. examine effect of autonomy on SMEs performance in South-West, Nigeria.
- ii. ascertain the effect of pro-activeness on SMEs performance in South-West, Nigeria.

The following hypothesis are being formulated and tested to confirm the stated objectives.

H₀₁ Autonomy has no significant effect on SMEs performance in South-West, Nigeria.

H₀₂ Pro-activeness has no significant effect on SMEs performance in South-West, Nigeria.

II. Literature Review

Concept of SMEs Performance

Smith and Leiva (2023) refers to SME performance as the effectiveness and success of small and medium-sized enterprises (SMEs) in achieving their business objectives and contributing to overall economic growth. This performance can be measured through various indicators, including financial metrics such as revenue, profit margins, and return on investment, as well as non-financial aspects like customer satisfaction, employee engagement, and market share. SME performance is influenced by several factors, including the quality of management, the ability to innovate, access to resources, and the competitive environment in which they operate. They further stated that high-performing SMEs are often characterized by their agility, adaptability, and capacity to leverage opportunities in the marketplace, thereby playing a vital role in job creation and economic development within their communities.

Oba and Onuoha (2022) asserted that SME performance is how well a small or medium-sized enterprise (SME) is doing in achieving its business goals. This concept encompasses various dimensions, including financial performance, such as profitability and revenue growth; operational efficiency, such as productivity and cost management; and market performance, such as sales volume and market share. SME performance is often evaluated through key performance indicators (KPIs) that provide insights into the company's ability to compete, grow, and sustain itself in the business landscape.

Entrepreneurial Orientation

Rigtering, et al. (2023) refers to entrepreneurial orientation (EO) as the strategic posture, behaviors, and decision-making processes of a firm that are aimed at identifying, exploring, and exploiting opportunities in the marketplace. It encompasses the mindset and practices that enable an organization to innovate, take calculated risks, and proactively engage with emerging trends and changes in its environment. Entrepreneurial orientation is just like a company's "entrepreneurial spirit." It's the willingness to challenge the status quo, experiment with new ideas, and embrace change. This doesn't mean being reckless, but rather a calculated approach to risk-taking, where the potential rewards outweigh the potential losses. Grande, et al. (2023) stated that entrepreneurial orientation is a mindset and set of behaviors that drive a company to seek out and exploit opportunities. It's not just about starting a business, but about being innovative, taking risks, and constantly looking for ways to grow and adapt. Imagine a company that's always on the lookout for new markets, products, or ways to improve their existing offerings. That's entrepreneurial orientation in action. Companies with a strong EO are often characterized by their agility, responsiveness to market shifts, and ability to quickly adapt to changing circumstances. They're not afraid to fail, as they view failure as a learning opportunity. This proactive, forward-thinking approach allows

them to stay ahead of the curve and gain a competitive advantage.

Pro-activeness

Sandada, et al. (2023) stated that proactiveness is the quality of taking initiative and anticipating potential issues or opportunities before they arise. It involves a forward-thinking mindset, where individuals or organizations actively seek to influence the future rather than simply reacting to events as they occur. Proactive people or entities are characterized by their ability to plan ahead, identify potential challenges or advantages, and take preemptive actions to achieve desired outcomes. This approach often leads to better preparedness, innovation, and a greater ability to navigate complex or changing environments effectively.

Saher and Sakari (2023) asserted that proactiveness is the ability to anticipate problems or opportunities and take action before they arise. It's about taking ownership of your situation and making choices that shape your future, rather than passively reacting to events. A proactive person is not just responding to what's happening around them, but actively seeking out ways to improve their circumstances and achieve their goals. A proactive individual or organization tends to be alert, resourceful, and ready to seize opportunities or mitigate risks in advance, fostering resilience and adaptability in a dynamic environment. This trait is essential for effective leadership, strategic planning, and long-term success, as it empowers individuals and entities to shape their future rather than be shaped by external circumstances.

Autonomy

Henssen, et al. (2023) refers to autonomy as the capacity of an individual, organization, or entity to make decisions independently and act upon them without external influence or control. It embodies the idea of self-governance, where an individual or group exercises freedom and authority over their actions, choices, and decisions. Autonomy is often associated with the ability to pursue one's goals, make personal or collective decisions, and be accountable for the

outcomes of those decisions. Mudjijah et al. (2022) refers to autonomy as independent action in terms of "bringing forth an idea or a vision and carrying it through to completion", including the concept of free and independent action and decisions taken. Entrepreneurs are associated with more of a degree of freedom in combining and organizing resources and the success of a firm dependent on the level of autonomy exhibited by the entrepreneurs. With reference to entrepreneurship in the context of strategy formulation, two classifications of autonomy are referred to by scholars.

Empirical Review

Pro-activeness and SMEs Performance

Almeida and Santos (2023) investigated the effect of pro-activeness on performance indicators of SMEs in Brazil. Survey design was adopted. The study used Simple random sampling with a sample size of 300 SMEs in Brazil. Structured questionnaires were distributed electronically to SME owners. Correlation and structural equation modeling (SEM) were used to analyze the data. The study found a significant positive relationship between proactiveness and various performance indicators, including profitability and employee productivity. The study recommends that there is need for a proactive organizational culture that encourages innovation and responsiveness to market changes. Data used in the study might be biases, as SME owners might overstate their proactive behaviors and performance outcomes. Nguyen et al. (2022) studied effect of proactiveness on SMEs (Small and Medium-sized Enterprises) financial and non-financial performance in Vietnam. The study used Mixed-methods approach. Purposive sampling technique was used. The study used 180 SMEs as a sample size. Data were gathered through surveys and semi-structured interviews with SME owners. The data was analyzed using SPSS. The found that proactiveness positively affects both financial and non-financial performance. The study recommended that there should be training programs to enhance the proactiveness of SME managers and staff, emphasizing

continuous market engagement. The purposive sampling might limit the generalizability of the findings to broader SME populations.

Autonomy and SMEs Performance

Gonzalez and Martinez (2023) conducted a study to investigate the relationship between autonomy and performance of SMEs owner in Spain. The study used the quantitative method. Simple random sampling. The sample size used in the study was 300 SMEs. The study adopted structured questionnaires. The study used correlation and multiple regression for analysis. The study found a strong correlation between autonomy and SMEs performance. The study recommended that SMEs should cultivate a culture of autonomy to stimulate innovation and enhance overall performance. The response by SMEs owner may be bias, as SME owners might overestimate their performance due to subjective perceptions. Cheng et al. (2023) investigated the influences of autonomy on SME performance in China. Survey research design was used for the study. The study used convenience sampling with the sample size of 100 SMEs. Questionnaire and interview were used as a mean of data collection. The data were analyzed using SPSS. The findings revealed a positive and significant influence of autonomy on employee performance. The study recommends that there should be focus on the importance of leadership styles that encourage employee autonomy to improve performance. The use of convenience sampling may limit the diversity of perspectives.

Theoretical Framework

Innovative Theory of Entrepreneurship

Innovation as a theory of entrepreneurship is accredited to Schumpeter (1934) and it is also called Schumpeterism (Wood, 2005). Innovation is the prime driver of economic progress as Schumpeter recognized it. Entrepreneurs create many of the innovations that shape our lives in small and medium scale businesses (Kickul, et al. 2001). According to Schumpeter (1934), innovation is the major force behind entrepreneurship. He further argues that Every growth-oriented venture is a function of

innovation and without innovation, the theory of entrepreneurship does not exist. To buttress more on his point, he proposed that: “in part it (bourgeois society) appeals to, and in part it creates, a schema of motives that is unsurpassed in simplicity and force. The promises of wealth and the threats of destitution that it holds out, it redeems with ruthless promptitude where ever the bourgeois way of life asserts itself sufficiently to deem the beacons of another social world. These promises are strong enough to attract the large majority of supernormal brains and to identify success with business. The fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumers’ goods, the new methods of production or transportation, new processes and new merchant. The new markets, and the new forms of industrial organization that capitalist enterprise creates - innovation is what entrepreneurship is all about (Schumpeter, 1934).

The Innovative Theory of Entrepreneurship plays a crucial role in understanding the dynamics of small and medium-sized enterprises (SMEs), their entrepreneurial orientation, and overall performance. This theory emphasizes the significance of innovation as a driving force behind entrepreneurship, highlighting the ability of entrepreneurs to create new ideas, products, or processes that effectively meet market needs. For SMEs, innovation is not merely an advantage; it is often a core competency essential for survival and growth. Unlike larger corporations, SMEs typically operate with limited resources, making their capacity for innovation a critical factor in navigating competitive markets. The Innovative Theory suggests that the success of these enterprises hinges on their ability to innovate effectively and adapt swiftly to changes, enhancing their agility and flexibility. Entrepreneurial orientation, which encompasses a firm’s strategic posture characterized by proactivity, risk-taking, and a strong emphasis on innovation, is closely aligned with the principles of the Innovative Theory. Firms that exhibit a high entrepreneurial orientation are more likely to pursue innovative strategies, which can significantly impact their performance. By

embracing new ideas and taking calculated risks, these SMEs can capitalize on emerging opportunities, setting themselves apart from their competitors. The relationship between innovation, entrepreneurial orientation, and performance is well-documented. Innovative SMEs tend to achieve better market competitiveness, leading to improved financial outcomes. Research has shown a positive correlation between innovative practices and financial success, with firms that prioritize innovation often experiencing higher sales and profitability. Moreover, a strong focus on innovation contributes to long-term sustainability, enabling SMEs to adapt to evolving market conditions and changing consumer preferences.

Methodology

The study adopted a survey research design. The population of the study consists of registered SMEs in South-West (149,317) according to SMEDAN (2021). The sample size of (399) SMEs was determined using Taro Yamane (1968) sample determining formula. Convenience sampling techniques was used and the procedure involved selecting participants based on their availability and willingness to participate to enable the collection of data. The study used primary data. Data were collected using a 5-point Likert scale structured questionnaire. The data collected were analyzed using smart-PLS SEM.

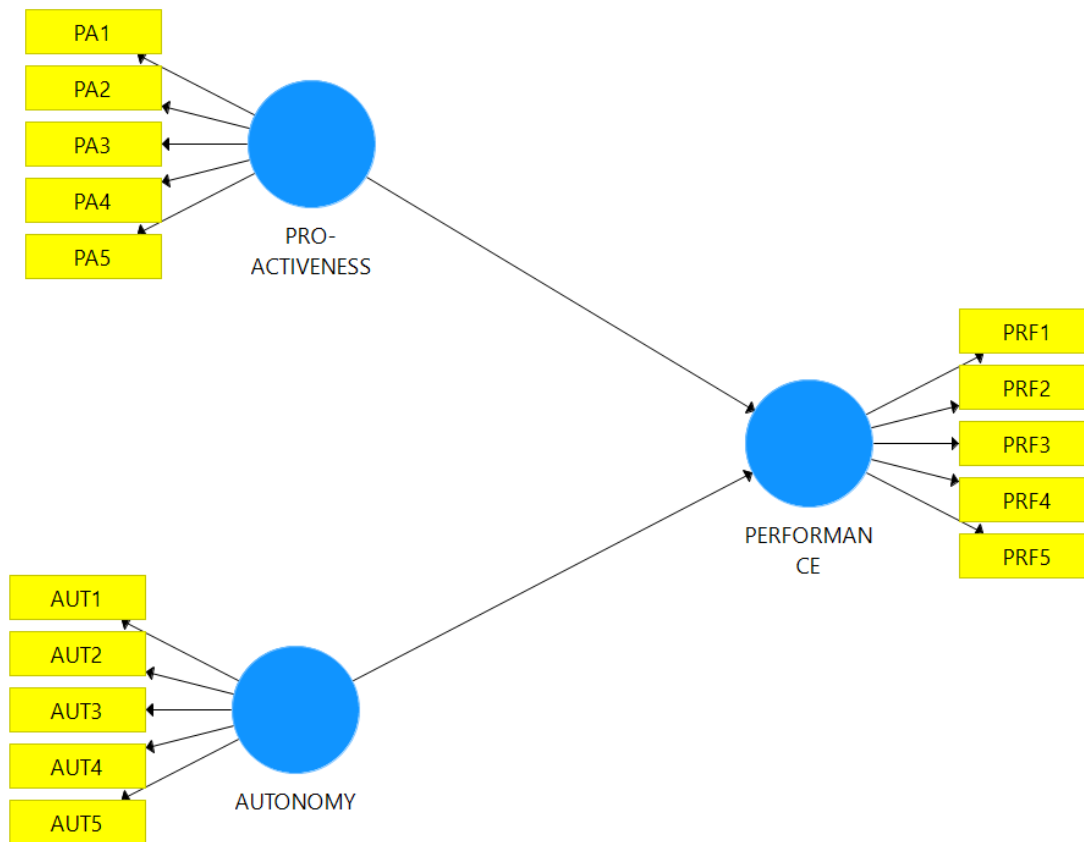


Figure 1: Study Model

Table 1.1: Reliability of study scale

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S/N	Variables		Factor Loadings	Cronbach Alpha	Composite Reliability	Rho A	Average Variance Extracted (AVE)	No o Item
1	Autonomy (AUT)	AUT2 AUT3 AUT5	0.770 0.613 0.916	0.655	0.815	0.715	0.601	3
2	Proactiveness (PA)	PA1 PA2 PA3	0.912 0.800 0.818	0.798	0.882	0.812	0.713	3
4	Performance (PRF)	PRF3 PRF4 PRF5	0.795 0.770 0.852	0.731	0.848	0.738	0.650	3

Source: Smart PLS Output, 2025

Composite reliability of Jöreskog's (1971) was applied to test for the internal consistency of the items. All the values fall within the Hair, et al., (2019) rating of good consistency. The Cronbach alpha value was above 0.60 which is the minimum threshold as recommended by Sekaran (2010). To test for the convergent validity, the average variance extracted (AVE) was used. All the latent variables showed values greater than 0.50 which indicates that the constructs explain at least 50 percent of the variance of its items. According to Henseler et al., (2015), the Fornell-

explaining discriminant validity, particularly when the indicator loadings on a construct differ only slightly. As a replacement, they proposed the Heterotrait-Monotrait (HTMT) ratio of the correlations which is the mean value of the item correlations across constructs relative to the (geometric) mean of the average correlations for the items measuring the same construct (Voorhees et al., 2016). Discriminant validity problems are present when HTMT values are higher than 0.90 for structural models (Henseler, et al., 2015).

Table 2 Heterotrait-Monotrait Ratio (HTMT)

	AUTONOMY	PRO- ACTIVENESS	PERFORMANCE
AUTONOMY			
PRO-ACTIVENESS	0.751		
PERFORMANCE	0.533	0.528	

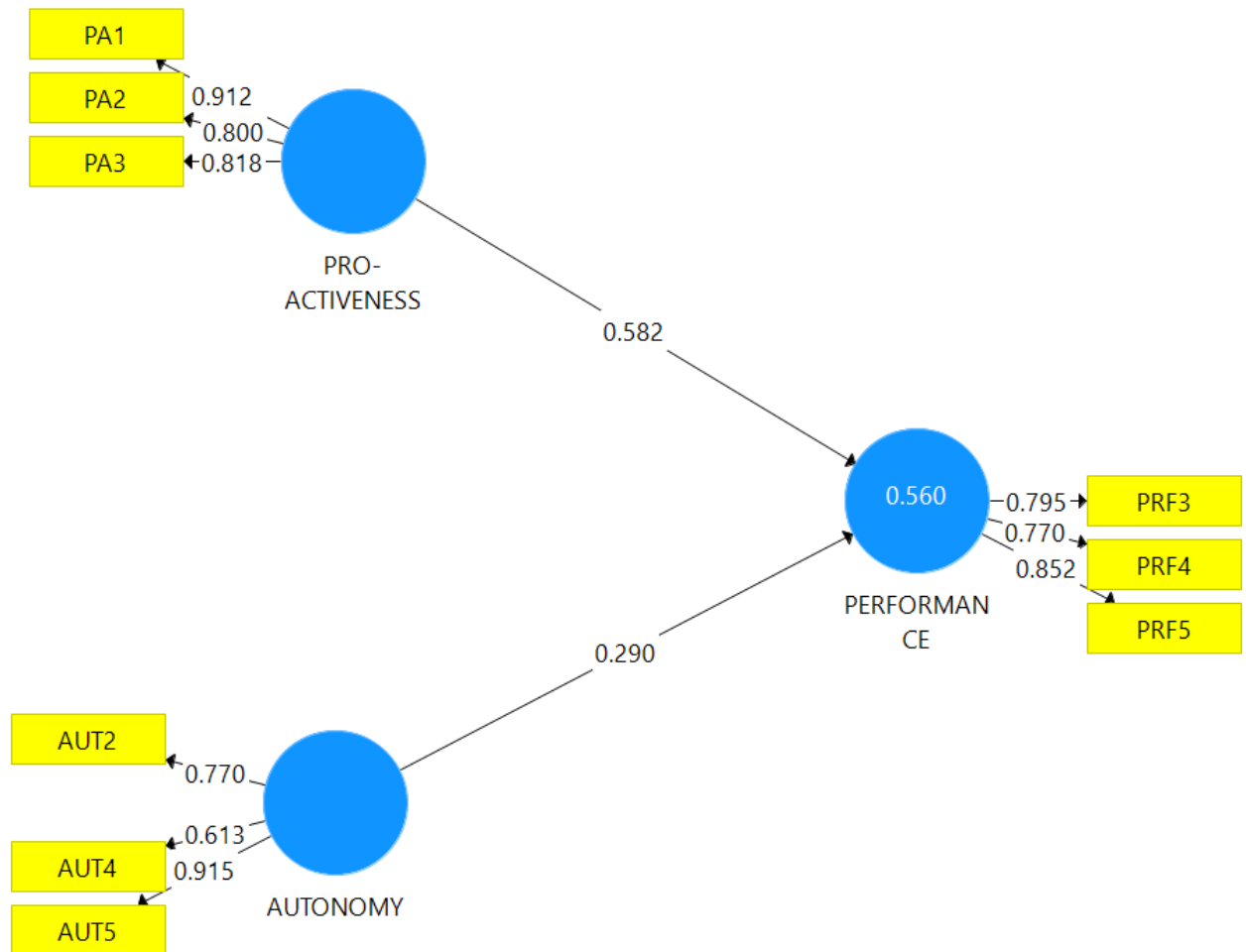
Source: Smart PLS Output, 2025
Model Goodness of Fit (GoF)

Sequel to the need to validate the PLS model, there is a need to assess the goodness of fit of the model as Hair, et al. (2017) suggested. This study

used the standardised root mean square residuals (SRMR). The choice of this index was based on the fact that the SRMR provides the absolute fit measure where a value of zero indicates a perfect fit. The study adopted Hu & Bentler's (1998) suggestion that a value of less than 0.08 represents a good fit while applying SRMR for model goodness of fit. The study result indicates an SRMR value of 0.01. This indicates the model is fit.

Assessing the Structural Model

Having satisfied the measurement model assessment, the next step in evaluating PLS-SEM results is to assess the structural model. Standard assessment criteria, which was considered include the path coefficient, t-values, p-values, and coefficient of determination (R^2). The bootstrapping procedure was conducted using a resample of 5000.



Source: Smart PLS Output, 2025

Fig. 3: Path Coefficients of the Regression Model

The R-square value stood at 56%, indicating that entrepreneurial orientation represented by proactiveness and autonomy are responsible for

56% variation in the SMEs performance. The remaining 44% variation could be explained by other factors not included in the study. Based on Hair, et al., (2019), the R-square is considered suitable and lends credence to the study's findings. The result of the path analysis is presented in the table below.

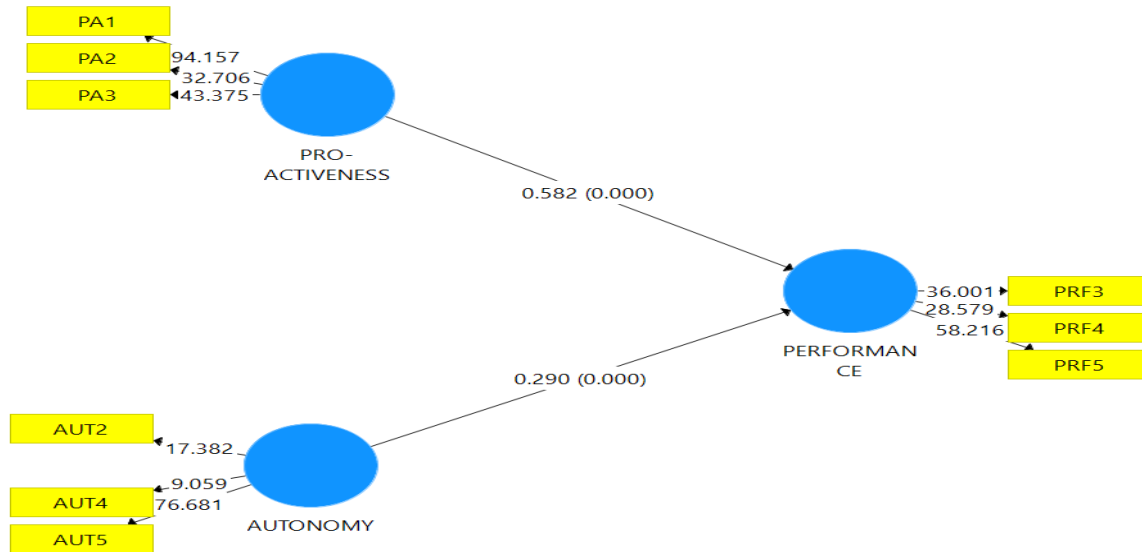


Table 3.1: Path Coefficients

Hypothesis	Variable	Path Coefficient *** (Beta)	t-value	p-value	Findings
H01	Pro-activeness	0.582	13.039	0.000	Rejected
H02	Autonomy	0.290	5.378	0.000	Rejected

Source: Smart PLS Output, 2025

Results and Discussion.

Results from Table 3.1 above shows that proactiveness has positive effect on SME performance, as indicated by a significant path coefficient ($\beta = 0.582$), a high t-value of 13.039, and a p-value of 0.000. This result implies SMEs that demonstrate forward-looking behavior, anticipate future market needs, and act ahead of competitors are more likely to achieve superior performance outcomes. This finding aligns with previous studies that link proactive strategic behavior to increased market responsiveness and competitive advantage. Lastly, the second hypothesis revealed a positive and significant effect of autonomy on SME performance. The path coefficient for autonomy was $\beta = 0.290$, with a t-value of 5.378 and a p-value of 0.000, indicating a statistically significant positive

effect. This suggests that SMEs where decision-making authority is decentralized and employees or managers have the freedom to make independent choices tend to perform better. The ability to act autonomously allows firms to be more agile and responsive to changes in the business environment, thereby enhancing innovation and operational effectiveness.

Conclusion and Recommendation

Based on the findings above, the study concludes that proactiveness and autonomy are key motivators for SMEs performance in North Central Nigeria. Therefore, the study recommended that SME owners and managers should adopt a forward-thinking and opportunity-driven mindset in their strategic and operational decision-making processes. This will enable them to anticipate market trends, respond swiftly to changes in customer preferences, and

stay ahead of competitors. Lastly, SME operators should reduce excessive centralization by delegating authority and empowering staff to explore creative solutions and act on emerging opportunities.

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