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## Article

# The relationship between entrepreneur orientation and performance

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## The Relationship between Entrepreneur Orientation and Performance

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### Abstract

The business world is very competitive due to changes that take place in the turbulent environment. For this reason, it is expected for small and medium enterprises to be entrepreneur oriented so has to meet up with the changes that occur in the external environment. The study examined the relationship between entrepreneur orientation and SME performance through a questionnaire and convenient sample technique of 100 managers located in Kaduna state Nigeria. The study utilized smart PLS 3.2 in analyzing the data. The findings of the study show that entrepreneur orientation is positively significant relationship with performance.

### Key words

Entrepreneur orientation, SME performance, managers

**JEL Codes:** L26, L31

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## 1. Introduction

Entrepreneur actions contribute to the survival and growth of the firm. One feature that makes successful organization stand out among others is Entrepreneurship. Researchers have acknowledged that entrepreneurship inclined firms contributes to improve growth and market share over competitors (Kuratko *et al.*, 2004). In other words, it is paramount for small and medium enterprises to be innovative, proactive so has to succeed in the competitive environment. The present study is guided by Resource Base view theory (RBV). Resource base view which is sometimes referred to as RBT or RBV is one of the basic theories used in management sciences (Kellermanns *et al.*, 2016; Nyberg *et al.*, 2014). The resource base theory states that capabilities and resources of an organization are sources which they can use in acquiring competitive edge and improved performance (Barney, 1991; Wernerfelt, 1984). Capabilities are used in deploying resources while resources refer to factors that is utilized and owned by organization (Abidemi *et al.*, 2017; Amit and Schoemaker, 1993). Based on the RBV premises resources can be tangible or intangible assets which firms use in implementing strategies with the basic objective to improve effectiveness and efficiency (Barney, 1991). Researchers have also stated that human, physical and firm resources can lead to improved organizational performance and consequently competitive edge (Bello *et al.*, 2018; Jogaratnam, 2017; Lonial and Carter, 2015). Thus, firms that explore entrepreneurial orientation effectively can lead to improved performance and create competitive advantage (Lonial and Carter, 2015).

The objective of the paper is to examine RBV view theory which states that efficient and effective utilization of organizational resources and capabilities leads to improvement in organizational performance (Barney, 1991). The study also adds to the body of knowledge in small and medium enterprises by (1) Utilizing RBV theory in explaining how organizational resources and capabilities affects performance; (2) Organization that are entrepreneur inclined are likely to gain sustained competitive edge and improve performance (Boso *et al.*, 2013; Lechner and Gudmundsson, 2014). However, the findings of the study can help managers of SMES to always be innovative, take risk and be entrepreneur inclined. Enhance managers to be critical when making decisions. The research is of paramount importance to Small and medium enterprises because there are so many small and medium enterprises that compete on a daily basis for customers (Lechner and Gudmundsson, 2014). In the same vein, research as indicated that small and medium enterprises are faced with cut throat competition, low entry barrier (Barney, 1991). It is a well-known fact SMEs face different kind of risks due to the perishable products which most of them offer to prospective customers (Singal, 2015). Similarly, most of these firms are usually managed by the owners/managers. Small and medium enterprises have to strive to achieve competitive edge

through proper coordination of the available resources and capabilities that they possess (Amoah-Mensah, 2013; Lowik *et al.*, 2012).

## 2. Literature review

With respect to resource base view theory, a firm can achieve competitive advantage by producing resources which is rare, valuable, unique and difficult for rivalry firms to imitate (Barney, 1991). Similarly, researchers have noted that capabilities and resources are not to be combined together so as to achieve competitive edge (Pertusa-Ortega *et al.*, 2010). In other words, organizational capabilities such as entrepreneurial orientation can serve as a source of competitive advantage since it's a capability of a firm, if used efficiently and effectively can lead to improved organizational performance. Similarly, some firms possess key resources and stand a better chance of attaining competitive edge (Bello *et al.*, 2018; Kozlenkova *et al.*, 2014). Small and medium enterprises may find it difficult due to lack of critical resources such as financial and physical resources, which tends to restrict their strategic options (Porter, 1985). Small and medium enterprises may utilize resources differently or may make use of the same resources utilized by larger institutions so as to gain competitive edge and sustained organizational performance (Kellermanns *et al.*, 2016).

### 2.1. Entrepreneurial orientation

For the past few years, a number of studies have investigated the idea entrepreneur orientation (Rauch *et al.*, 2009; Wales *et al.*, 2013). It is important to note that the concept entrepreneurship is different from entrepreneur orientation. The earlier states what an organization does while the later reflects how an organization operates (Lumpkin and Dess, 2001; Miller, 2011). Entrepreneurship focus on which business to enter into and how can they gain a competitive edge in the new business venture (Richard *et al.*, 2004). While Entrepreneur orientation signifies an organization position which is established by activities and practices of the business (Lumpkin and Dess, 2001; Wales *et al.*, 2013). Similarly, most studies on entrepreneurship used either individual or managerial level as unit of analysis, however, entrepreneurial orientation is primarily concerned with practicing entrepreneurship, which is a process oriented construct (Wiklund, 1999). In other words, entrepreneur orientation focus on how a firm practices entrepreneurship (Miller, 2011; Wales *et al.*, 2013). In the case of small and medium enterprises, entrepreneurship is born out of the character of the manager or owner. If the owner possess entrepreneurial traits, so would his business (Miller, 2011).

Prior research theorized EO as a unidimensional construct with three dimensions which are proactiveness, risk taking and innovativeness (Miller, 1983). Organizations that are entrepreneurial oriented study what happens in the market and respond quickly so as to exploit the gains in the market before competitor's sets in. entrepreneurial firms are usually proactive in offering services/product in the market and they take risk by offering services which have not been offered to the public before by been innovative to anticipate competition (Covin and Slevin, 1989). When innovativeness, proactiveness and risk-taking are put together are referred to as organizational capabilities which gives an edge over competitors and translates in to superior performance (Wales *et al.*, 2013; Wiklund, 1999). In a turbulent environment, where products become obsolete quickly, firms that entrepreneurial oriented can benefit from the uncertain environment by looking for opportunities to harness and coming up with new services/products (Rauch *et al.*, 2009; Wiklund and Shepherd, 2005).

Even though a review of literature reveals that EO leads to improvement in organizational performance. some studies revealed a significant positive relationship between entrepreneur orientation and performance (Lumpkin and Dess, 2001; Wiklund and Shepherd, 2005). Whereas some studies reveal a negative and insignificant relationship between EO and performance (Covin *et al.*, 2006; Rauch *et al.*, 2009; Shamsuddin *et al.*, 2012). For instance, Wales (2016) noted that not all EO activities translate into improved performance. Given the inconsistencies in the literature, there is need to further investigate the relationship between entrepreneur orientation and SME performance (Rauch *et al.*, 2009; Wales *et al.*, 2013). In the same vein, there has been call for researchers to investigate the relationship that exist between EO and performance in different context due to varying cultures and different diverse entrepreneur activities, and different industries. Due to divergent argument on the relationship between EO and performance, the present study presents the hypothesis below:

H1: there will be a positive relationship between EO and SME performance.

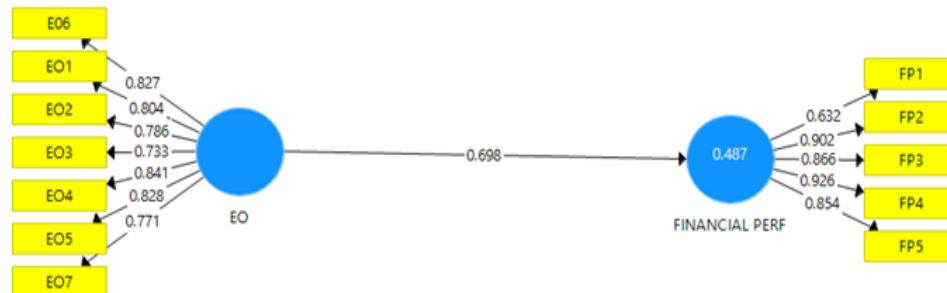


Figure 1. Conceptual Model

### 3. Methodology of research

#### 3.1. Measurement of variables

In measuring EO, the scale developed by Covin and Slevin (1989) with 9 items was used in assessing EO on a five point Likert scale. In assessing organizational performance, 5 items were utilized based on the scale of Powell (1995). The questionnaires were administered to 100 small and medium managers in Kaduna state Nigeria.



### 4. Results

#### 4.1. Measurement model

The table below displays the result for the measurement model, from the table; it shows categorically that the standard set in assessing measurement model has been meeting. The composite reliability and Cronbach's Alpha of each latent variable exceeds 0.70 threshold (Hair Jr, 2014; Fornell and Larcker, 1981; Hair *et al.*, 2010). The table further shows that the instrument used in measuring EO and FP are consistent. In the same vein, the value of Average Variance explained is greater than 0.5 (Hair Jr *et al.*, 2016). In ascertaining Average variance 2 items from entrepreneur orientation were deleted.

Table 1. Results summary for the measurement models

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
EO	0.906	0.911	0.925	0.639
FINANCIAL PERF	0.893	0.907	0.923	0.710

#### Cross Loadings

	EO	FINANCIAL PERF
E06	0.827	0.608
EO1	0.804	0.618
EO2	0.786	0.518
EO3	0.733	0.443
EO4	0.841	0.468
EO5	0.828	0.623
EO7	0.771	0.571
FP1	0.511	0.632
FP2	0.681	0.902
FP3	0.481	0.866
FP4	0.613	0.926
FP5	0.610	0.854

#### 4.2. Discriminant Validity and Square Roots of AVE

Discriminant validity is the extent to which a variable differs from other latent variable (Hair Jr *et al.*, 2016). The discriminant validity states the uniqueness of a latent variable and also states if the variable measures what other variables do not capture. In the same vein, Average variance explained should be above 0.50 (Fornell and Larcker, 1981). From the table 2 below, discriminant validity has been ascertained; similarly all the AVES of the latent constructs are above 0.50.

Table 2. Discriminant validity and square roots of average variance extracted Fornell-Larcker Criterion

Latent construct	EO	F PERF
EO	0.799	
FINANCIAL PERF	0.698	0.843

#### 4.3. Results of the Structural Model and Hypotheses Testing

The table 3 below and figure 3 shows the structural model which shows the beta values, P-value and T. value. The table and figure 2 shows the result of bootstrapping of the model.

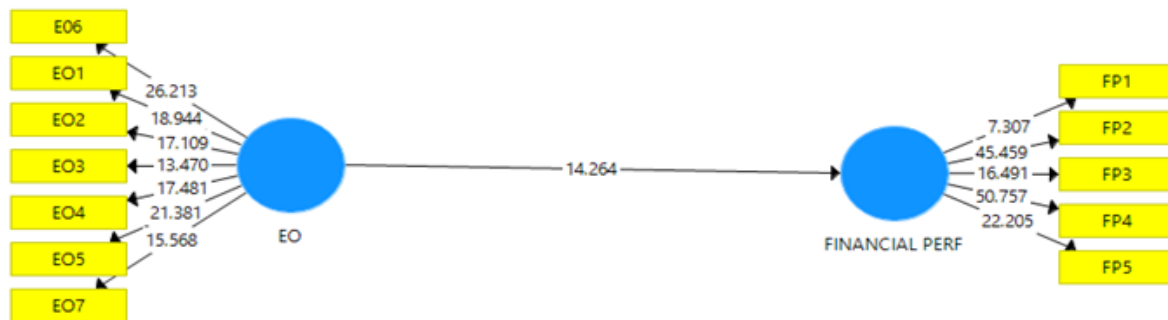


Figure 3: PLS bootstrapping

Hypothesis	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
EO → FINANCIAL PERF	0.049	14.264	0.000

#### 5. Discussions and Conclusions

The study examined the relationship between EO and SME performance. The findings of the study from PLS 3 show that EO is significantly related to SME performance. The result shows reveals that EO is positive and significantly predictor of SME performance. The findings of the student are in line with other literatures that found a significant relationship between EO and performance (Dai *et al.*, 2014; Mahmood and Wahid, 2012; Zhang *et al.*, 2012). The study shows that firms that are entrepreneurial inclined tend to achieve competitive edge and improved organizational performance. The finding is also important to managers since its states that entrepreneurial firms have to be entrepreneur inclined. The study also noted that managers have to be proactive, take risk so as to achieve competitive edge and sustained organizational performance. The findings also contribute to resource base view theory.

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