Factors Influencing Small and Medium Enterprise Performance in Nigeria: A Pilot Study

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Abstract

This paper discusses factors influencing the performance of SMEs in Nigeria using the quantitative approach. The study used a survey method; it administered 40 questionnaires to SME owner-managers randomly selected in Kano, Nigeria. Four elements were identified and used as determining factors of SMEs performance, these are: entrepreneurial orientation, technology orientation and contemporary marketing as independent variables and government support policies (GSPs) as a moderating variable. Validity and reliabilty of the instruments were scrutinized by professionals in the field of management and their observations were used in modifying the items of the quetionnaire. Similarly, to present the results of the pilot test, the data was analysed using PLS-SEM 2.0 and the findings confirmed the validity and reliability of the instruments adapted for the study. Theoretically, the paper established a new insight on the role of government on the relationship between the determinants and SMEs performance. The study has practical implication for government, policy makers, regulators, SMEs owner-managers and other stakeholders to recognize government support as it affects SMEs performance. The study further adds to the frontier of knowledge on the importance of GSPs in strengthening the relationship between the variables and SMEs performance.

Keywords: SMEs, performance, government support, owner-managers, Nigeria

1.0 Introduction

The concept performance is open to wide variations in meaning as it is a somewhat indefinite word when it is used in research. The lack of consensus on the meaning generates misperception and obviously limits the potential for review and comparability of studies in the area (Sorooshian, Aziz, Ahmad, Jubidin, & Mustapha, 2016). For instance, performance management, firm performance, performance measurement, performance assessment or performance evaluation are used interchangeably. The

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dictionary of management sciences defines performance as the accomplishment of a given task measured against pre-set known standards of accuracy, completeness, cost, and speed (Al-Dhaafri, Al-Swidi, & Yusuff, 2016; Sorooshian et al., 2016).

Accordingly, to perfectly evaluate how well an organization is performing, there is a need to develop some assessable measures. This can be attained by recognizing those aspects of the business procedures that need modification for improvement and those that are working well (Aminu & Mahmood, 2016). The firm's productivity for a certain period of time can be measured by this process and accurate result or output compared with actual inputs determines the performance of a firm (Al-Dhaafri et al., Shehu & Mahmood, 2014). SME performance can be measured by using different criteria or indicators such as financial and non-financial measures. Financially, it can be measured by looking at return on investment, profitability, return on assets, market share and sales growth among others while non-financial measures will look at competitiveness, employee satisfaction, customer satisfaction, service quality and innovation among others. An SME is said to be performing when it achieves its overall objectives with effective and efficient utilization of its resources (Aminu & Mahmood, 2016; Semrau, Ambos, & Kraus, 2016).

Over the years, SMEs appears to have attracted increasing attention from researchers. However, studies on SME performance in emerging economies are still relatively limited in terms of their scope and focus (Aminu & Shariff, 2015). For example, studies by Alegre and Chiva (2013), Chen, Jaw, and Wu (2016), Deshpande, Grinstein, Snow, and Elie (2013), Kreiser, Marino, Kuratko, and Weaver (2013) and Lechner and Gudmundsson (2012) have all contributed in investigating SMEs performance but mostly in developed countries as SMEs are key contributors to the various nation's GDP.

Conversely, there are a number of studies on SMEs performance in emerging markets that investigated the role of strategic orientations towards SMEs performance (Al-Dhaafri et al., 2016; Aminu & Shariff, 2015; Chen et al., 2016; Matchaba-hove, Farrington, & Sharp, 2015; Semrau et al., 2016). As suggested by Aminu (2015) and Adeniyi (2011), there is still room for further investigation on the relationship between entrepreneurial orientation, technology orientation, contemporary marketing and SME's performance in an emerging economy like Nigeria. In a view to fill the gap in the literature. The main objective of the study is to analyze some determinants of SME performance and find out whether government support has a moderating role in that relationship. To achieve this, resource-based view theory, as firms' internal resources, was applied as underpinning theory to determine the competitive advantages.

Validity and reliability are the two frequently encountered concepts in the measurement and evaluation of constructs and are important for defining and measuring bias and distortion. As such, establishing the validity and reliability of the survey instrument

is essential before it can be used in the study so as to be free from bias and distortion. According to Hair, Hult, Ringle and Sarstedt (2014) and Sekaran and Bougie (2013), validity refers to the effect of an instrument in measuring the construct it is designed to measure and determines whether the research truly measures what it was intended to measure, while reliability is the level of internal consistency or stability of the measuring device over time. In other words, it is the consistency of an instrument to produce the same results each time it was used (Urban & Barreria, 2010).

The study conducted a pilot test to confirm the reliability and validity of adapted scale of the measures as suggested by Chen, Liu, Sheu and Yang (2012) and Straub, Boudreau and Gefen (2004). This was carried out prior to the actual data collection of the study. The data for the pilot test was gathered from a small group of respondents comparable to the sample of the main study and they did not form part of the real respondents. The pilot test addressed two important issues. First, it is concerned with the validity and reliability of the items in the questionnaire and secondly, to give the researcher a glimpse of any potential problems and to take remedial actions before embarking on the actual data collection (Ashraf, Thongpapani, & Auh, 2014; Sekaran & Bougie, 2013; Zikmund, Babin, Carr, & Griffin, 2013).

2.0 Literature Review

As a result of the dwindling petroleum price in the global market, small and medium enterprises (SMEs) are becoming an important part of the Nigerian economy. Around 90% of total business establishments in Nigeria are SMEs, contributing 97% of the workforce in addition to 48% of industrial output in terms of value added (NBS & SMEDAN, 2013; Somoye, 2013). SMEs play an important role in contributing to the economy, particularly in the areas of innovation, regional development and social cohesion, which in turn contributes to the GDP and employment (CBN, 2006). In Nigeria, successive administrations of government at different times have geared their efforts towards SME development. Several policy measures and financial assistance instruments were introduced (Eniola & Entebang, 2015; Eze et al., 2016). The Nigerian government over the years demonstrated its commitment to support the development of SMEs through various initiatives including monetary, fiscal and industrial policy measures (Somoye, 2013). These efforts are as a result of the acknowledgment of the importance of SMEs in terms of Nigerian economic development towards business establishment, employment opportunities, development of indigenous technology and skills, as well as GDP contributions (Bouri et al., 2011).

However, SMEs contribution to the GDP has not been stable for some years in Nigeria (SMEDAN, 2012). For example, SMEs contributed 37% to the GDP in 2009 and the figure improved in 2010 making a total contribution of 46.5% to the GDP (NBS & SMEDAN, 2010). However, since then the contribution of SMEs to the general

economic development of Nigeria has been decreasing. In 2013, the total contribution to GDP was 10% and accounting for 30% of the country's total export from manufacturing sector (ACCA, 2013). Even though the contribution to GDP is not stable in Nigeria, it is interesting to note that the manufacturing sector of SMEs export is recording 30% annually, suggesting that there is scope to increase and stabilize the contribution to GDP as well.

The inconsistency of SME contribution highlights the poor performance of Nigerian SMEs in recent years which is far less than anticipated (Dauda & Akinbade, 2010; Irefin, Abdu-Azeez, & Tijani, 2012). Among some of the reasons for the poor performance are inadequate funding; infrastructural decay; entrepreneurial and marketing inability; enabling environment to businesses operating within the various sectors; limited application of technology and innovation to operate within the segment; and unfavorable competition from foreign goods and services (Bangudu, 2013; Mwobobia, 2012). In addition, lack of marketing knowledge and skills is identified as a major cause of SME's poor performance in Nigeria (Kamyabi & Devi, 2011). Similarly, Ogunsiji and Ladanu (2010) perceived lack of entrepreneurial orientation as one of the significant challenges facing SMEs in Nigeria, while weaknesses in strategizing and integrating entrepreneurial activities are also seen as reason (Kanayo, Jumare, & Nancy, 2013).

Additionally, the security challenges in the country, especially in the northeast is perceived as another serious issue which needs to be addressed (Dambazau, 2014). Thus, it is imperative to further investigate whether there are some solid strategic elements that can allow SMEs to perform better and survive in such a challenging climate. These issues need urgent attention, because apart from employment generation, SMEs are good avenues to alleviate poverty and improve economic growth, especially in a developing country like Nigeria where unemployment and poverty rates are alarming (Fashoyin, 2012; Kale, 2012). Recognizing the importance of the SMEs, the present government of Nigeria resolves to engage more with SMEs in ensuring viable economic development and wealth creation (Osinbajo, 2015). In view of the current government's commitment to supporting SMEs, the provision for technological and entrepreneurial orientations is expected to improve the performance of the sector (Eniola & Entebang, 2015; Okafor, 2015). Bo and Qiuyan (2012) contend that government support policy on SMEs should reflect a state's direction and some level of intervention to the sector's technological orientation, behavior and firm performance.

The basic principles for classifying SME is based on the strength of the workforce capital. World Bank (2013) defined SMEs as a firm having a strength of 10 – 300 workforce. In the EU, SMEs must have annual revenue equal to or over Euro 40 million and/or the balance sheet value not exceeding Euro 27 million. Similarly, Ghavidel, Farjadi and Mohammadpour (2011) describe SMEs as financially independent companies that are not affiliated to large companies and fiscal assets are also used to define SME. In Nigeria however, there is no clear cut definition of SME, the concept

varies over time and from organization to organization (World Bank, 2013). Various institutions in Nigeria have at different times, defined SME in different ways. National Policy on SMEs classifies Nigerian's SMEs into three categories of micro, small and medium enterprises. These SMEs are defined based on the number of employees and total assets in Nigerian naira (NGN), excluding land and building (NBS & SMEDAN, 2013; Oboreh, Francis, & Ogechukwu, 2013). NBS and SMEDAN (2013) defined SMEs as an enterprise with employees fewer than two hundred workers and total assets excluding land and buildings does not exceed a capital based of five hundred million Nigerian naira.

Lan and Wu (2010) define Entrepreneurial Orientation as the readiness to engage in a more innovative, risky as well as uncertain activities in the market place, accurately to ascertain new opportunities before their competitors. Abdul Majid, Kamaludin, Saad and Aziz (2012) conceptualized EO as the organizational strategy making procedures and styles that engage in entrepreneurial activities. This comprises all actions taken by organizations to be more proactive, innovative as well as issues relating to risk-taking. Based on this, several researchers have agreed that EO is a mixture of the three dimensions of innovativeness, pro-activeness, and risk-taking (Alegre & Chiva, 2013; Covin & Wales, 2011; Kreiser & Davis, 2012). Thus, EO involves a willingness to innovate, to rejuvenate market offerings, take risks to try out new and uncertain products, services, and markets, and be more proactive than competitors toward anticipated market signals and opportunities (Abdul Majid et al., 2012; Ibrahim & Mas'ud, 2016; Covin & Wales, 2011; Kantur, 2016; Lan & Wu, 2010).

Technology orientation is one of the most important strategic orientations used by firms to achieve a long-term business success. TO predominantly focus on technology by pursuing state-of-the-art technologies to improve and develop new products, openness to new ideas and prefer such ideas that employ the most advance technologies (Zhou & Li, 2010). SMEs may expect greater performance if their resource allocation is more ambitiously technological and innovative driven (Pratono, 2016). Ruiz-ortega (2013) identified technological capability as increasing firms' expectation to achieve greater performance. Furthermore, TO is the firm's ability and willingness to obtain and develop higher technological superiority and to inculcate technological mind-set in the area of innovation and applying it to improve existing product and encourage new product development (Aminu & Shriff., 2015; Li & Zhou, 2005). The authors maintained that firms must have a solid technological positioning so as to perform better than their competitors in the global market. Similarly, firms that are committed to research and development, and employ new technologies will undoubtedly achieve competitive advantage.

Contemporary marketing context comprises five categories as advanced by Coviello and Brodie (2001) and further conceptualised by Brodie, Coviello and Winklhofer (2008) as comprising Transaction Marketing, Database Marketing, e-Marketing, Interaction

Marketing and Network Marketing. The concepts are considered to be complimentary marketing practices and in-built dimensions of an integrative model reflecting various empirical phenomena (Boone et al., 2010; Brady, Saren, & Tzokas, 2002). CM as by Brodie and Coviello in 1997 and further advanced by other writers all through the years supports the idea of "understanding how businesses relate to their markets in a way that assimilates both traditional and contemporary views of marketing" (Boone et al., 2010; Palmer & Koenig-Lewis, 2009).

The government support policies for SMEs vary from country to country and from advanced countries to developing countries due mainly to the level of industrialization, cultural differences and business context (Nguyen, Alam, Perry, & Prajogo, 2009; Quy, 2016). Governments of most countries, especially developing nations have invested so much efforts and resources in establishing policies geared toward improving SMEs (Oni & Daniya, 2012; Quy, 2016; Shariff, Peou, & Ali, 2010). Cases in point are Brazil, China, Malaysia, Nigeria, and Saudi Arabia (World Bank, 2014). However, previous studies indicated that overall government supports for SMEs are not impressive in Sub-Saharan Africa (Nigeria inclusive). In cases where such programmes exist, they are under-utilised (Fatoki, 2012; Fatoki, 2011; Kasseeah & Thoplan, 2012; Olawale & Garwe, 2010).

Furthermore, a number of previous studies have produced inconsistent results on the effect of EO and SMEs performance. Some of the studies found a significant positive relationship (see Ibrahim & Mas'ud, 2016; Deshpande et al., 2013), while other, (see Alegre & Chiva, 2013; Urban & Barreria, 2010) found no significant relationship between EO and SMEs performance. Additionally, Al-Dhaafri et al. (2016) and Kreiser et al. (2013), in their separate studies, found EO as having a curvilinear relationship with performance. Similarly, studies on TO have shown mixed results, for instance, Aminu and Shariff (2015) and Pratono (2016) in their findings revealed a positive relationship between TO and SMEs performance. However, Deshpande et al (2013) in their study on strategic orientation and firm performance states that TO have no effect on performance. Limited studies have investigated CM and firm performance (see Adeniyi 2011; Iyalla, 2015). Moreover, it is noted that not much attention was given to the combined effort of EO, TO and CM on SMEs performance on a single model. Based on the paucity identified in the literature, this study proposed a framework to incorporate EO, TO and CM on SMEs performance with a moderating effect of GSPs as shown in Figure 1.

The model, as depicted in Figure 1, has three independent variables namely entrepreneurial orientation (EO), technology orientation (TO) and contemporary marketing (CM). The dependent variable is firm performance (SMEs) and government support policies is the moderating variable.

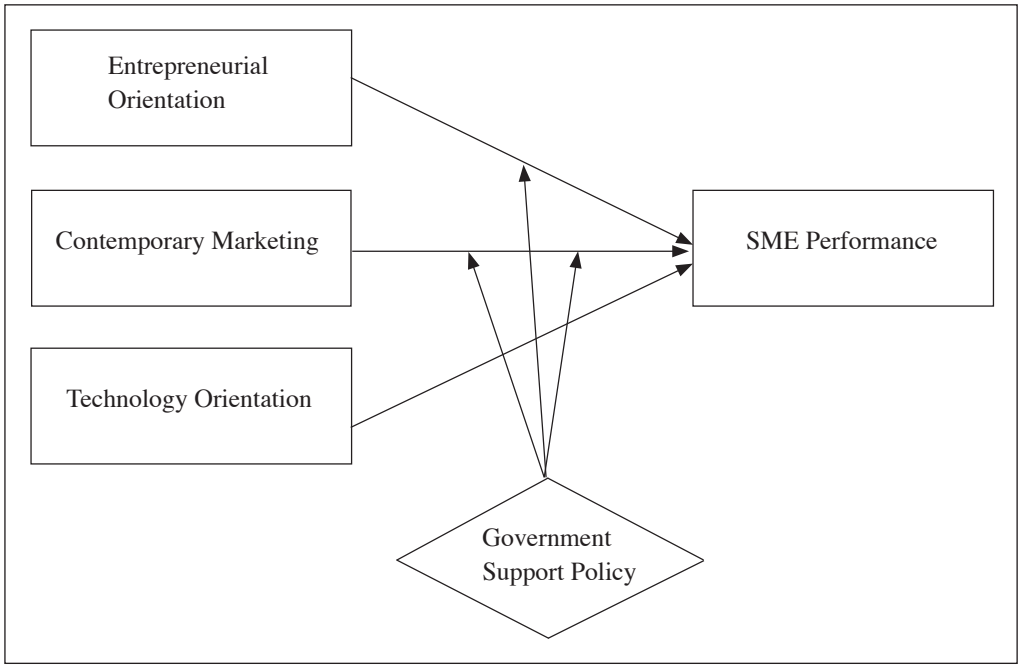

Figure 1. Conceptual Framework

3.0 Methodology

This study as earlier mentioned is a pilot test carried out to determine the validity and reliability of the instruments to be used in the final study. A survey method of data collection was applied to assess the opinion of SME owner-managers regarding their respective firms. Based on Diamantopoulos, Sarstedt, Fuchs, Wilczynski and Kaiser's (2012) recommendation, an acceptable number of questionnaire to be administered in a pilot test is between 30 to 100, hence, the researcher randomly distributed 50 questionnaires to SME owner-managers who are the target respondents for the study in Kano, Nigeria. Out this, 40 usable questionnaires representing 80% were returned and analysed for this purpose. The high rate of response was achieved as a result of administering the questionnaire personally by the researcher.

To improve the reliability of the measurement, all the variables were measured using a 7-point Likert scale. A scale of 5 and 7 point is confirmed to be more reliable and accurate than lower or higher scales, and or a scale without a midpoint (Sauro, 2010). Prior to the main analysis of the data, the researcher started by coding and entering the data into SPSS package V. 22 Windows and also determined the Cronbach's Alpha. Convergent validity and discriminant validity were analysed using Partial Least Squares Structural Equation Modeling (PLS-SEM) package 2.0. The constructs used in this

study were adapted from prior researches and previously tested for reliability. Some of the questions used were slightly modified to make them more relevant to the purpose of this study. Table 1 presents the summary of the measurement used for this study.

Table 1

Measurement of Variables in Summary (Questionnaire)

Part	Section	Variables	Source	Total
1	IV	EO	Covin and Wales (2011)	17
2	IV	TO	Aminu (2015), Halaka and Kohtamala (2011)	10
3	IV	CM	Brodie et al, (2007).	29
4	Mod V	GSP	Shariff, Peou and Ali (2010).	13
5	DV	SME-PER	Suliyonto and Rehab (2012) Spillan and Parnell (2006)	10
	Total			**79**

4.0 Results

4.1 Validity Test

Sample of the questionnaire was distributed to experts in the field of management, specifically academicians and SME operators to make useful comments and inputs on the suitability of the items adapted to measure the constructs. The experts consulted comprises of two senior lecturers in the School of Business, University Utara Malaysia and one Professor and another two senior lecturers in the Faculty of Management, University of Maiduguri, Nigeria. Additionally, the questionnaires were given to some SME owner-managers in Kano, Nigeria for their comments and inputs in respect of the questions. Based on their observations, the present study modified the adapted measures by removing all irrelevant items and added relevant items in order to really capture the context of the study as suggested by Cook and Campbell (1979). By adding the relevant items and removing the irrelevant ones from the original scale, this study purified and tested the measures in the Nigerian context, which is culturally different from the setting in which these measures was originally developed, hence will make potential respondents to understand the questions and provide answer accurately.

4.2 Reliability Test

As presented in table 1, the results of the reliability test show that all the measures of the study are reliable as the values range from 0.77 to 0.96. According to Hair, Hult, Ringle

and Sarstedt (2014) and Sekaran and Bougie (2013), a Cronbach's alpha coefficient of 0.60 is considered as an average reliability whereas 0.70 and above indicates a high reliability. Hence, all the constructs in this study are reliable and there is no need to remove any item.

Table 2

Reliability Test

Constructs	**Cronbach's Alpha**	**No. of Items**
Innovativeness	.906	3
Risk taking	.773	3
Competitive aggressiveness	.892	3
Proactiveness	.886	3
Autonomy	.899	5
Technology orientation	.958	10
Transaction marketing	.920	5
Data base marketing	.919	6
Network marketing	.939	7
E-marketing	.943	6
Interactive marketing	.921	5
Government support	.959	13
Performance	.960	10

Furthermore, PLS-SEM 2.0 was used to calculate the convergent validity and discriminant validity for the pilot test. Convergent validity is described as the extent to which items accurately represent the intended latent construct and truly correlate with other measures of the same latent construct (Hair jr et al., 2014). This was evaluated by examining the Average Variance Extracted (AVE) of each latent construct. To achieve adequate convergent validity, the AVE of each latent construct should be .50 or more as suggested by (Hair jr et al., 2014). As presented in Table 2, all the AVE on their respective constructs is higher than 0.50 hence indicates adequate convergent validity.

The discriminant validity reveals the extent to which a certain latent construct differs from other latent constructs. The correlations among the latent constructs were compared with the square root of the average variances extracted (AVE) of each constructs. Table 3 indicates that the square root of the average variances extracted were all greater than the correlations among latent constructs, this suggests an adequate discriminant validity (Voorhees, Brady, Calantone, & Ramirez, 2015).

Table 3

Pilot Test: Reliability and Convergent Validity (*n=40*)

Constructs	AVE	Composite Reliability	Cronbach's Alpha
CM	0.931	0.986	0.982
EO	0.909	0.980	0.975
GSP	0.673	0.964	0.958
PER	0.742	0.966	0.961
TO	0.736	0.965	0.960

Table 4

Pilot Test: Discriminant Validity (*n=40*)

Constructs	CM	EO	GSP	PER	TO
CM	**0.965**				
EO	0.897	**0.953**			
GSP	0.840	0.829	**0.853**		
PER	0.926	0.940	0.804	**0.962**	
TO	0.753	0.848	0.853	0.816	**0.858**

5.0 Conclusion

As earlier stated, the purpose of this study is to assess the content validity of the adapted measurement items in preparation for the main research. Among the main concerns of the pilot study is the validity and reliability of the instruments. The results of the pilot test indicate that the composite reliability for all the constructs are higher than the threshold of 0.70. As presented in Table 2, the results of the reliability test show that all the measures of the study are reliable as the Cronbach's alpha values ranges from 0.77 to 0.96. According to Hair et al. (2014) and Sekaran and Bougie (2013), a Cronbach's alpha coefficient of 0.60 is considered as having an average reliability whereas 0.70 and above indicates a high reliability. Similarly, results of the convergent validity suggest a value greater than 0.50 threshold value for all the constructs as shown in Table 3. Accordingly, Table 4 presents the square roots for the respective AVEs which suggest a value greater than the correlation of any other constructs, signifying that the latent constructs of the study have adequate discriminant validity. This confirmed that the

constructs of the study are different from each other and none is extremely correlated with another. Therefore, it is concluded that all the constructs in this study are reliable and there is no issue for removal of any items in the questionnaire.

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