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The Role of Access to Finance, Relational Capabilities and the Component of Strategic Orientations on SMEs Performance in Nigeria: A Pilot Study

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Abstract

The objective of this study is to explore and confirm the validity and reliability of the measurement instrument to determine the role of access to financing, relational capabilities and component of strategic orientations on SMEs performance in Nigeria. SMEs performance is paramount due to their significant contribution to employment and GDP. The issue of non-performance of SMEs and lack of empirical evidence on the role of strategic orientations on SMEs performance in emerging countries particularly Nigeria motivated the study. Therefore, confirming the validity and reliability of the measurement items will remove doubts regarding the applicability and suitability of the instrument in another context. It will also stand as the guide for full scale research. The study employed a survey approach and collected 33 useable questionnaires from SMEs in Kano-based on systematic random sampling technique. The model examined five factors as a determinant of SMEs performance in Nigeria. Hence the reliability and validity of the construct were determined by conducting data analysis using SPSSv20. Finally, the results have confirmed the validity and reliability of the measurement instruments used in the pilot study.

Keywords: Strategic Orientation, Relational Capabilities, Access to Finance, SMEs performance

1. Introduction

Despite much attention given to the small and medium enterprises (SMEs) globally due to their impact on the national economy, studies on their performance are still rare (Acquaah & Agyapong, 2015; Ibrahim Murtala Aminu & Shariff, 2015; Mohammed Abdulai Mahmoud, 2011; Shehu & Mahmood, 2014). SMEs are considered as an important assets for growth and development of both developed and developing economy (Organization for Economic Co-operation and Development [OECD] 2017). Specifically SMEs are more important to emerging countries because they contribute about 70% to GDP and provide more than 60% to the employment (D'Imperio, 2014; Tumwine, Akisimire, Kamukama, & Mutaremwa, 2015). In fact, SMEs dominate most of the business activities and accounting for more

than 90% of the total number of enterprise in Nigeria even though their performance is below average capacity (Gbandi & Amisshah, 2014).

However, the non-performance of SMEs in Nigeria attributed due to some factors such as lack of access to finance, poor relational capabilities and lack of strategic orientations (SO) (Aminu & Shariff, 2015; Matanda & Ndubisi, 2011; Shehu & Mahmood, 2014)). These factors have affected SMEs competitiveness, innovation, flexibility as well as performance. Consequently, it is expected that SMEs with good strategic orientations such as market orientation, learning orientation and entrepreneurial orientation can increase relational capabilities with customer and gain better competitive advantages thereby achieve higher performance (Kajalo & Lindblom, 2015; Karimi & Ahmadpour Daryani, 2017; Mason et. al, 2015; Smirnova, et. al, 2011). Nevertheless, this can only be possible with higher access to finance (Olawale Fatoki, 2012; Rogo, Noor, & Hafeez, 2017), hence access to finance can play significant role in implementing a viable strategic orientation (Wiklund & Shepherd, 2005). Although, many researches have been carried out to identify the factors that can enhance the productivity of SMEs and increase their competitive ability to achieve superior performance (Acquaah & Agyapong, 2015; Olawale Fatoki, 2012). Some of the factors consist of market orientation (MO) (Eris & Ozmen, 2012; Mohammed Abdulai Mahmoud, 2011; Wang & Miao, 2015), learning orientation (LO) (Farrell, Oczkowski, & Kharabsheh, 2008; Nikraftar & Momeni, 2017), entrepreneurial orientation (EO) (Brouthers, Nakos, & Dimitratos, 2015; Gupta & Batra, 2016). However, previous studies suggested that a good strategic orientation required financial commitment and therefore recommended access to finance to be considered in future studies (Rogo et al., 2017; Shamsudeen, Keat, & Hassan, 2016; Wiklund & Shepherd, 2005). Moreover, recent studies revealed that relational capabilities are capable of improving SMEs performance. However, there are limited studies that combine these factor in a unified research framework and



give detail explanation on how these combination of variable determine performance.

As such it is imperative to investigate the face/content validity and reliability of these variables in a one research framework in other contexts, with different economies policies and environmental factors before conducting the full-scale study. This step is necessary to ascertain that all items have internal consistency (i.e reliability) and content validity. Therefore this pilot test was conducted for two important reasons. Firstly to assess the reliability and validity of the instruments. Secondly is to have a preview of the actual conditions before embarking on a full-scale survey. This pre-test will give the researcher to predict any possible problems and take the necessary correction. Lastly, the pilot test result presented the factors or determinant of SMEs performance in Nigeria.

2. Literature Review

SMEs Performance

Small and Medium enterprises have significantly contributed to the economic and social well-being of the nation and hence, they are considered as an economic tool for growth and development in every country (Aminu & Shariff, 2015; Kanibir, Saydan, & Nart, 2014; Tumwine et al., 2015). SMEs contribute to employment generation (Mahmoud, Muharam, & Mas, 2015; Pulka, Ramli, & Bakar, 2018), which consequently lowers regional disparities between urban and rural communities (World Bank, 2014). However, it is the SMEs that advanced to a stage of big corporations (Aminu & Shariff, 2015; Mahmoud & Ahmad, 2018).

The term Small and Medium Enterprises (SMEs) comprises a broad spectrum of definitions. There is no generally agreed single unified definition of SMEs. In fact, different countries have a different meaning of SMEs (Berisha & Pula, 2015). Moreover, most of SMEs definition is based on the number of employees (headcount), sales/turnover or assets. For instance, in Egypt considered SMEs to have more than 5 and less than 50 employees, in Vietnam, SMEs are viewed to have people between 10 and 300 as a number of employees (Bouri et al., 2011). The World Bank categorised SMEs as those enterprises with not more than 300 workers, \$15 million US dollar total annual revenue, and \$15 million US dollar total assets. Likewise, the Inter-American Development Bank defines SMEs as having but not exceeding 100 workers and less than \$3 million US dollar in revenue (Bouri et al., 2011). Additionally, European Commission categorised SMEs as the enterprises that were made up with less than 250 employees and have an

annual sale not exceeding 50 million euro and the total annual balance sheet not exceeding 43 million euro (Verheugen, 2005). Therefore SMEs definition usually is based on the level of countries industrial development.

Meanwhile, in Nigeria SME is defined as a sector that encompasses small, and medium enterprises (SMEs), (SMEDAN, 2013). Specifically, small enterprises are those enterprises that employed between ten to forty-nine employees, with total assets of five million Naira, and a maximum of fifty million Naira excluding land and building. While medium enterprises are those enterprises that employed between fifty to one hundred and ninety-nine employees, with total assets of above fifty million Naira, but a maximum of five hundred million Naira, excluding land and building (SMEDAN, 2013). In addition, when there is a conflict between the number of employees' classification and assets based classification, the employment-based classification superseded assets based classification.

However, the performance of SMEs in Nigeria is below expectation. It has been revealed that the contribution of SMEs toward GDP and employment is inadequate for some reason (Terwase, Abdul-Talib, & Zengeni, 2014). Some these include lack of competitiveness, innovation and inability to adapt to the changing environment (Aminu & Shariff, 2015; Mahmoud & Ahmad, 2018). Since these enterprises are driven by strategies it is therefore important to improve their strategic orientation in order to have competitive advantage thereby to achieve superior performance.

Strategic Orientations

Strategic orientation (SO) is SMEs belief or culture that guides its decision-making practice and strategic implementation through the use of scarce resources to achieve superior performance (Kohli & Jaworski, 1990; Narver & Slater, 1990; Rauch, Wiklund, Lumpkin, & Frese, 2009; Sinkula, Baker, & Noordewier, 1997; Zamani, Abdul-Talib, & Ashari, 2016). Moreover, for SMEs to sustain dynamic business environment they need to build multiple strategic orientations (Kajalo & Lindblom, 2015; Lonial & Carter, 2015). Even though some studies revealed that MO, LO and EO individually enhance performance the effect of these orientations should not be individual because it is better to investigate the collective impact of strategic orientations rather than divided approach of single strategic orientation (Gruber-Muecke & Hofer, 2015; Kropp, et al., 2006; Nasir et al., 2017). This is because it has been debated that the collective effect of strategic orientations has a more significant impact on the enterprise (Atuahene-



Gima & Ko, 2001; Slater & Narver, 1995). This study will conduct a pilot study on MO, LO and EO because they are recognised in the available literature as more important and comprehensive types of strategic orientations that are most likely influence SMEs performance.

Market Orientation (MO) is defined as strategic activities that concern about customer orientation, competitor orientation and inter-functional coordination (Abdul Talib, 2005; Han, Kim, & Srivastava, 1998; Ho et al., 2017; Li, Zhao, Tan, & Liu, 2008). Scholars have the view that MO is a significant component of SO that has a great influence for SMEs sustenance and performance (Abd-Razak & Abdul-Talib, 2009; Al-Ansaari, Bederr, & Chen, 2015; Amin et al., 2016; Gruber-Muecke & Hofer, 2015; Joseph & Francis, 2015; Kirca, Jayachandran, & Bearden, 2005; Laukkanen et al., 2013; Wang & Miao, 2015). Notwithstanding, some of the studies in the emerging countries suggest that MO has an insignificant relationship with performance (Chao & Spillan, 2010; Keskin, 2006; Pinho, 2008; Polat & Mutlu, 2012; Voss & Voss, 2000). According to Mahmoud (2011), the poor performance of SMEs in emerging countries credited with their inability to implement MO because of their lack of resources and lack technical competencies. Therefore, with better MO SMEs performance could be improved.

Learning Orientation (LO) is defined as a commitment to learning, shared vision and open-mindedness (Sinkula, Baker, & Noordewier, 1997). Scholars have supported that LO increases the generation of important assets and capabilities to the enterprise particularly SMEs (Baker & Sinkula, 1999; Nybakk, 2012; Spicer & Sadler-Smith, 2006). LO is considered by scholars as an important component of strategic orientation that SMEs use and achieved superior performance (Abiodun, Tope & Kida, 2015; Hermann Frank et al., 2012; Hussaini, Shah, & Khan, 2016; Karimi & Ahmadpour Daryani, 2017; Nikraftar & Momeni, 2017; Salavou et al., 2004; Slater & Narver, 1995). In some studies, LO was revealed not significant with performance (Beneke et al., 2016; Lam et al., 2011; Lin et al., 2008; Nybakk, 2012; Real et al., 2014). Despite LO is crucial to SMEs performance most SMEs in developing countries still are incapable to exercise LO due to their limited resources couple with liabilities of newness, inexperience and smallness.

Entrepreneurial Orientation (EO) is also another aspect of strategic orientation that is defined as a simultaneous demonstration of innovativeness, proactiveness, and risk-taking (Engelen et al., 2015;

Hassim, Asmat-Nizam, & Addul Rahim, 2011). Entrepreneurial SMEs pro-actively exploit and develop new opportunities, ready to take risky venture, and innovatively create superior value to customers from the existing products which subsequently achieve SMEs performance (Aktan & Bulut, 2008; Brouthers et al., 2015; Covin & Slevin, 1989; Engelen et al., 2015; Gupta & Batra, 2016; Hassim et al., 2011). However, this significant positive relationship is often not reflected in emerging countries, which may be elucidated by differences in challenges faced by enterprise operating in other contexts (Buli, 2017; Kreiser et al., 2013; Lumpkin & Dess, 2001; Nikraftar & Momeni, 2017). Equally, the availability of entrepreneurs and the extent of government control toward risk-taking, proactiveness and product innovativeness in developing countries, may affect enterprise performance. Conversely, EO has been proven by earlier findings to be a crucial predictor of performance.

Relational Capabilities

Relational capabilities refers as ability to associate and coordinate with specific number of enterprise that will give enterprise complete benefit and improve performance (Lorenzoni & Lipparini, 1999; Parida, Pesämaa, Wincent, & Westerberg, 2017). Recent studies have found that better relational capabilities for SMEs can increase their performance (Lorenzoni & Lipparini, 1999; Shafei & Zohdi, 2014). Hence, relational capabilities can be a strategic asset to SMEs to overcome environmental uncertainty and achieve better performance in unfamiliar market and environment (Matanda & Ndubisi, 2011; Zohdi, Shafeai, & Hashemi, 2013). Relational capabilities are very important to SMEs particularly in emerging countries where inconsistency in government policy and lack of institutional support can increase environmental uncertainty (Jacob, 2006; Smirnova, Naudé, Henneberg, Mouzas, & Kouchtch, 2011; Srećković, 2017; Sulhaini, 2017).

Access to Finance

Access to finance refer as accessibility of financial resource among SMEs from financial services providers without financial constraint (Adomako, Danso, & Damoah, 2016; Fatoki, 2011). Also, strategic orientation and enterprise performance literature recommended that the enterprises should consider access to finance for better performance (Rogo et al., 2017). Several studies have related enterprise performance with enterprise access to finance (Mason et al., 2015; Rogo et al., 2017; Shamsudeen et al., 2016). Access to finance is theoretically recognized as a potential moderating



variable that can enhance strategic orientations and enterprise performance relationship (Mason et al., 2015; Wiklund & Shepherd, 2005). Fatoki, (2012) and Wiklund and Shepherd (2005) stress that SMEs need financial capital to obtain tangible resources in order to take advantage of business opportunities. According to Adomako, Danso and Damoah (2016) strategic orientations study appear to be incomplete without considering financial capital affecting the relationship.

3. Research Methodology

The objective of this study is to eliminate any form of doubt involving the validity and reliability of the measurement instruments. Advice and suggestions obtained from the pilot study will be useful for the review of the measurement items when necessary. As such survey design was used to measure the opinion of owner or managers of Nigerian SMEs. Fifty copies of self-administered questionnaires were randomly distributed to owner or managers of SMEs in the Kano state North West of Nigeria.

A self-administered questionnaire establishes a relationship of understanding between the researcher and respondents while introducing the survey. It also gives the room for making clarifications to the respondents immediately, and increase response rate since the collection of the data is instantly (Sekeran & Bougie, 2010). Although small numbers of questionnaires were distributed in this study, it is normal to have small data while conducting a pilot study (Fink, 2003; Mahmoud & Ahmad, 2018).

This study adopted a closed-ended questionnaire as a means of data collection. The questionnaire method regarded as the more suitable in this study because of the advantages attached to it over other technique of data collection. These consists of a better and simple generation of figures such as coding, tabulation and analysis (Dawson, 2007). Moreover, closed-ended questionnaire is considered the most reliable instrument generally used. It gives the respondents a chance to do choice quickly and easily (Sekeran & Bougie, 2009).

Table 4.1

Response Rate of the Questionnaire

No.	Response	Frequency/rate
1	No. of distributed questionnaires	50
2	Returned questionnaires	35
3	Returned and useable questionnaires	33
4	Returned and excluded questionnaires	2
5	Questionnaires not returned	15
6	Response rate	70%
7	Valid response rate	66%

The 7-Likert scale of measurement was used for the item of the questionnaire because it has a midpoint scale that can give better and reliable results (Krosnick & Fabrigar, 1997). It also gives respondents more chances to indicate their opinion accurately and easily. This scale was also been used by similar previous studies (Amin et al., 2016; Mason et al., 2015; Michna, 2009). Additionally, the items or questions in the questionnaire is adapted from the previous studies. The questionnaire consists of two part. Part A contains the research constructs while part B contains 8 questions about demographic information of the respondents. Regarding part A the first construct contains 13 items and the second contains 12 items were adapted from Farrell et al., (2008) to measure market orientation and learning orientation respectively. The third construct contains 12 items were adapted from Hakala and Kohtamäki (2011) to measure entrepreneurial orientation. Moreover, 4 items were adapted from Smirnova et al., (2011) to measure relational capabilities and 5 items were adapted from Martin, Cullen, Johnson and Parboteeah, (2007) to measure access to finance. Lastly, 6 items for enterprises performance (dependent variable) were adapted from Suliyanto and Rahab (2012).

4. Result

A total of 50 self-administered questionnaires were distributed using the systematic random sampling method to the owner or managers of SMEs in Kano, Nigeria. SPSSv20 software was used to ascertain the reliability and validity of the constructs in the pilot study. Out of 50, a total of 35 questionnaires were returned. Among these 35 questionnaires 2 were unusable because many items of those questionnaires completely not answer by respondents and the remaining 33 useable questionnaires were considered for analysis. This represented 66% of the valid response rate. According to Sekeran, (2003) 30% response rate is sufficient for a survey. See table 4.1



4.1 Validity

A team of experts and few samples of respondents were contacted to give comment and input on the appropriateness of the adapted instrument to gauge the constructs. Experts asked include, professors and associate professors and senior lecturers in the Universiti Utara Malaysia and Federal University Dutse Nigeria. Moreover, Doctors and some PhD students that are conversant with Nigeria who are knowledgeable in the context of the study were consulted to assess the clarity of the measurement instruments. Additionally, the self-administered questionnaire was also given to SMEs owners or managers for their input. Based on these, some questions/item were re-phrased /re-worded correctly to measure the construct and also to be more understandable by the expected respondents.

4.2 Reliability

It can be clearly seen from the result of analysis Cronbach's Alpha figures for all the study constructs have reached the higher threshold of 0.70 (Mahmoud, Ahmad, & Poespowidjojo, 2018; Nunnally, 1978; Sekeran & Bougie, 2010). This is line with the criterion that Cronbach's Alpha coefficient of 0.60 is regarded as average reliability, and a coefficient value of 0.70 or higher has greater reliability standard (Hair, Black, Babin, Anderson, & Tatham, 2006; Nunnally, 1978). Table 4.2 gives a summary of the reliability test. The result indicates all the Cronbachs Alpha coefficient of the measurement instrument are reliable. Therefore, there is no need to remove any item.

Table 4.2
Reliability Test

Construct	Number of item	Cronbatch's Alpha
Firm performance	6	0.89
Market orientation	13	0.70
Learning Orientation	12	0.77
Entrepreneurial Orientation	12	0.81
Relational Capabilities	4	0.87
Access to Finance	5	0.82
Total	52	

4.3 Demographic Respondents

From the descriptive analysis indicates that 81.1% are male respondents while female represent 18.2%. This indicates that the majority of respondents are male. Additionally, regarding the position of respondents in their respective enterprise 36.4% are owners, 27.3% are managers while owners who are also managers represents 33.3% of the respondents and only 3% of respondents represented by others.

Furthermore, considering educational qualification both holders of primary and SSCE school certificate are represented by 12.10% of respondents each while diploma and degree/HND also represented by 27.30% of respondents each. Moreover, postgraduates are represented by 21.20% respondents. Therefore, all the respondents have a certain level of education. Concerning the duration of the enterprises in operation 18.20% representing both the enterprises of below the age of five years and those that are between 11-15 years while 42.40% of respondents represents enterprises in the age of 5-10 years. Equally enterprises above 16 years were presented by 21.20%. Accordingly, more than 80% of the enterprises possess a certain level of experience

because they have more than five years in operation.

Another demographic characteristic of respondents are the industry types as indicated in the below table respondents from manufacturing enterprises have the highest percentage with 39.40% then followed by trade and commerce with 24.2% while ICT and transportation are represented with 9.10% each. Agriculture and tourism are represented with 12.10%. The film and multimedia, as well as hotels and restaurants, are represented by 3.00% each. In addition, the respondents were asked to indicate their numbers of employees. Specifically, 66.70% of respondents have 10-49 employees while 33.30% represents enterprises with employees between 50 to 1999.

The last demographic variable of the respondents is the source of capital of the enterprises. Precisely 54.60% and 27.30% of the respondents represent personal saving and family respectively. In addition, partnership represents 12.10% while friends and bank loan represents only 3.00% each. As such the majority of enterprises revealed in this pilot study started their business with personal saving or assistance from family.



Table 4.3

Summary of Demographic Respondents

Item	Frequency	Percentage
Gender		
Male	27	81.10
Female	6	18.20
Job Position		
Owner	12	36.40
Manager	9	27.30
Owner-manger	11	33.30
Other	1	3.00
Qualification		
Primary	4	12.10
SSCE/Undergraduate	4	12.10
Diploma	9	27.30
Degree/HND	9	27.30
Postgraduate	7	21.20
Duration of the Enterprise		
Below five years	6	18.20
5-10 years	14	42.40
11-15 years	6	18.20
16 years-above	7	21.20
Industry		
Manufacturing	13	39.40
Trade and commerce	8	24.20
ICT	3	9.10
Agriculture and tourism	4	12.10
Transportation	3	9.10
Film and multimedia	1	3.00
Hotel and restaurant	1	3.00
Workforce		
10-49	22	66.70
50-199	11	33.30
Sources of Capital		
Personal saving	18	54.60
Family	9	27.30
Partnership	4	12.10
Friends	1	3.00
Bank loan	1	3.00

5. Conclusion

As described in the introduction part, the aim of this pilot study is to tests the face/content validity and reliability of the question/items of the present study for the preparation of the full-scale study. It has been clearly indicated from the outcome of this

study that the Cronbach's alpha coefficient for all constructs under examination have reached 0.70. Thus, considering the most accepted threshold is 0.70 it can be resolved that the whole constructs are reliable, and as such, there is no need to remove any question or item.



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