Entrepreneurial and Market Orientation Relationship to Performance: The Role of Business Environment

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Abstract

The purpose of the study is to examine the moderating effects of business environment on the relationship between entrepreneurial orientation (EO), market orientation (MO) and business performance of small and medium enterprises (SMEs) in Nigeria. This study seeks to resolve the inconsistencies found in the contemporary literature concerning the relationship between EO, MO and business performance. A planned questionnaire using a 5-point Likert scale was adopted from previous works to determine the respondents’ response. A survey research design was adopted and self-administered questionnaires were used to collect the data from 640 owner/managers of SMEs. The analysis was carried using SPSS version 20, the results of the study indicated that entrepreneurial orientation has a significant and positive relationship with business performance; a negative relationship is reported between market orientation and business performance. The study also found that business environment does not moderate the relationship between entrepreneurial orientation, market orientation and business performance of SMEs. Owner/managers, regulatory agencies, government, and other stakeholders will benefit from the study findings, and future research direction provided.

Keywords: Entrepreneurial orientation, Market orientation, Business Environment, Business Performance, SMEs.

1. Introduction

There is an increasing significant role played by Small and medium enterprises (SMEs) in the economic growth and development of many countries. SMEs are major source of employment which enhances societal upliftment of standard through the provision of goods and services and utilization of local human and material resources (Shehu & Mahmood, 2014a; Idar & Mahmood, 2011). SMEs serve as a source of raw material to large companies. They face a lot of challenges due to competition, technological advancement in information technology, and customers need and preference changes. SMEs in Nigeria are faced with poor entrepreneurial and market orientations as well as multiplicity of regulatory agencies (Shehu & Mahmood, 2014b). For SMEs to exploit the available opportunities in a dynamic environment opens up, they need to relook at their existing strategies. They need dynamic abilities that will allow them to get and use new opportunities and renew the existing entrepreneurial and market bases. The purpose of this study, therefore, is to examined the relationships between entrepreneurial orientation, market orientation and business performance of SMEs in Nigeria. Specifically, this study aims to (1) determine the significant relationship between entrepreneurial orientation and SME performance, (2) determine the significant relationship between market orientation and SME performance, and (3) determine the moderating role of business environment on the relationship between entrepreneurial and market orientation to performance relationship.

2. Literature Review

2.1 Entrepreneurial Orientation and Performance

Several studies conducted have used entrepreneurial orientation in its relationship with firm performance and the possible outcomes includes: Gurbuz and Aykol (2009) inspected two hundred and twenty one independently owned and operated small manufacturing firms that employ less than one hundred and fifty employees in Istanbul as a sample. The findings indicated strong linkage between EO and firm growth. However, Richard, Wu and Chadwick (2009) argued on the impact of entrepreneurial orientation and firm performance of five hundred and seventy nine US banks. They reported a strong and positive relationship between entrepreneurial orientation and firm performance. Faizol, Hirobuni and Tanaka (2010) examined entrepreneurial orientation and business performance of small and medium scale enterprises of the Hambantota district of Sri Lanka. The result shows a strong linkage between the two constructs. Al-Swidi and Mahmood (2012) investigated total quality management, entrepreneurial orientation and organizational performance. The findings reported a positive association between TQM, EO and organizational performance. The finding of Ndubisi and Ifikhar (2012) from Pakistan with a sample of hundred and twenty four SMEs is also in line with the previous entrepreneurial orientation studies. Similarly, the finding of Fatoki (2012) indicated that there was a significant positive
relationship between entrepreneurial orientation and performance of SMEs. In (2012) Junaidu investigated entrepreneurial orientation and export performance of SMEs in the Nigerian Leather Industry, using multiple regression and a mail survey questionnaire with resource based view as the theoretical underpinning. The findings of the study posit that tangible resources (financial, operational, communication, human, and intangible resources, knowledge image and marketing resources) are all strongly related to firm export performance.

In (2013) Mahmood and Hanafi, empirically investigated the effect of competitive advantage on entrepreneurial orientation and performance of women-owned SMEs in Malaysia, using survey questionnaire and regression method for the data analysis. The finding of the study indicated significant and positive rapport between EO and performance. This is also similar to Alarape (2013) finding, which established a significant and positive relationship between entrepreneurial orientation and firm performance. Shukri Bakar and Mahmood (2014) investigated transformational leadership and corporate entrepreneurship to performance relationship of higher education institutions in Malaysia. The finding indicated a significant and positive relationship between corporate entrepreneurship and performance; corporate entrepreneurship partially mediated transformational leadership and performance.

Despite, the numerous literature that reported a significant and positive relationship, there are other studies with mixed findings as: Runyan, Droge and Swinney (2008) in their study reported a mixed finding. Entrepreneurial orientation predicted the performance of young generation firms; whereas small business orientation was found to predict the performance of the old generation group of firms. Arbaugh, Cox and Camp (2009) results established a mixed findings as entrepreneurial orientation was positively to net worth (financial performance), while entrepreneurial orientation was negatively related to return on sales. Similarly, the study of Frank, Kessler and Fink (2010) study shows a low correlation between business performance and entrepreneurial orientation.

H1: There is a positive association between Entrepreneurial orientation and SME performance

2.2 Market Orientation and Performance

SMEs need to be more customer focused, monitor the competitive trends and strategies of competitor and respond effectively and appropriately to the market intelligence in order to survive successfully (Mahmoud, 2011). A study on the market orientation and performance relationship has extensively been carried over the past two decades with most researchers generally agreeing on its positive outcome, although a mixed finding is established. Slater and Narver (2000) in their empirical investigation using survey which provides a robust backing for the presence of a positive relationship between market orientation and performance. Shoham and Rose (2001) examined market orientation to performance relationship, which was considered as a seminal work of earlier investigation. Subramania and Gopalakrshna (2001) investigated the relationship between market orientation and performance in the context of a developing economy. The result was analyzed using regression method and the finding indicated that market orientation is an important predictor of performance.

Other previous studies that found positive association between the MO and performance (i.e. Jaworski & Kohli, 1993; Pelham, 1997; Pitt et al., 1996; Pulendran et al., 2000; Ruekert, 1992; Kara et al., 2005; Kirca et al., 2005). Whereas, the studies of Au and Tse (1995) reported a negative relationship amid MO and business performance. On the other hand, Mokhtar et al., (2014) and Oztoran et al., (2014) in their study mixed findings amid the relationship between market orientation and business performance.

H2: There is a positive association between Market orientation and SME performance

2.3 Business Environment and Performance

There appear a mixed findings on the business environment studies as either independent or dependent variable with different results, some of these studies are: Lindsay, Tan and Campbell (2009) conducted a study on candidate performance on the business environment and concepts section of the CPA Examination. The business environment was used as an independent variable in the relationship between concept sections of the CPA examination. The study of Song and Parry (2009) finding indicated that desired level of market orientation is a function of market turbulence, competitive intensity, technology turbulence and innovation strategy. Additionally, Nandakurmar, Ghabodian and Regan (2010) empirically investigated four thousand five hundred and eleven US companies and the data were generated from leading commercial database. The findings reported a strong linkage between environment and competitive performance. Fereidouni, Masron, Nikbin and Amir (2010) reported a positive association between the business environment and entrepreneurial motivation.

However, Bruton, Filatotchev and Chahine (2010) examined UK and France initial public offer (IPO) of two hundred and twenty four firms. They reported institutional environment as a good moderator on the association between governance, structure and IPO performance. Aswari (2010) assessed business environment for small and medium enterprises in Lebanon, which specifically focus on assessing the existing legal, regulatory and policy environment for small business growth in the country. The sampling frame made up of sixty four small enterprises using survey interview and descriptive statistics for the data analysis. The business
environment was used here as an independent variable and the study recommended need for creating a conducive environment for smooth operation of small businesses in Lebanon. Cosh, Fu and Hughes (2012) reported that young firms operating in high – technology sector with informal structures have more influence on innovation. Pederson and Sudzina (2012) surveyed two hundred and ninety nine Danish firms, and reported that inadequate number of internal and external factors have a significant association on the adoption of performance measurement systems.

Korunka, Kessler, Frank and Lueger (2010) argued on environment as a predictor of business survival using a survey questionnaire as an instrument and logistic regression for data analysis. The sample was drawn from three hundred and fifty four small business owners observed over eight years using longitudinal study. The environment was used as an independent variable, and the study reported that personal characteristics, resources, and environmental aspects at the start of business activities have a partial association with business survival. Similarly, Shehu and Mahmood (2014c) reported a significant and positive relationship between business environment and performance of SMEs in Nigeria. Based on this the study proposed:

H3: Business environment moderates the association between entrepreneurial orientation and SME performance.
H4: Business environment moderates the association between market orientation and SME performance

3. Methodology
3.1 Sample and Data Collection
The data is collected through a hand delivery survey questionnaire completed by the owner/managers of SMEs systematically selected from the list of registered SMEs in Kano – Nigeria. Although there are limitations in the use of questionnaire based research, however, it has advantage of cost savings; convenience; anonymity, and reduced interview bias seem to outweigh the shortcomings (Sekaran & Bougie, 2010; Idar & Mahmood, 2011). In order to take care of problems associated with common-method bias using self-report data, hence, the results of this study is only presenting the owner/managers’ perceptions which could provide the most precise assessment of the conditions with a firm (Lyon, et. al. 2000). A total of 640 owner/managers from the sampling frame were sent with the questionnaires and 511 usable responses were returned giving a response rate of 79.8 percent, making the response rate to be adequate. There is also an issue of non-response bias which is common to a survey method of data collection. Non response bias exists when there are significant differences between the answers of those who have responded and those who do not respond. This study followed the criteria of comparing the respondents of the first group with those of the second group (Armstrong & Overton 1977). The early group consisted of 321 responses whereas; the final group consisted of 190 responses. The result of the t-tests shows that there is no statistically significant differences on demographic characteristics. Thus, it can be concluded that there is no significant non-response bias in the present study.

3.2 Measures of Variable
3.2.1 Entrepreneurial Orientation
This study used Entrepreneurial orientation as a single construct adapted from Idar and Mahmood (2011), which is supported in the previous studies of Ricard et al., (2009), Clercq et al., (2010), Al – Swidi and Mahmood (2012), Mahmood and Hanafi (2013), Shehu and Mahmood (2014d). There are nine-items measured on a 5 point Likert scale. The EO represent a three sub-dimensions; innovativeness, pro-activeness and risk-taking respectively.

3.2.2 Market Orientation
The study used Market orientation measured as a single construct adapted from Suliyanto and Rahab (2012). There are 12 items representing customer orientation, competitor orientation and inter – functional coordination. The items were measured on a 5 point scale where 1 indicated ‘strongly disagree’ and 5 indicated ‘strongly agree.

3.2.3 Business Environment
The business environment is operationalized to refer to the external factors affecting business organization. The external environment is also used in the previous work of Minai and Lucky (2011), Njaja et al., (2012), Bratnichka and Bratnichki (2013). External environment with the 12 items was adapted from the work of Abd Aziz (2011), which they also adopted from Kaderet (2009).

3.2.3 Performance
The subjective performance measure is adapted from the work of Suliyanto and Rahab (2012). There are six items, measured on a 5 – point likert scale where 1 indicated ‘strongly disagree’ and 5 indicated ‘strongly agree.

4. Analysis
4.1 Reliability and Validity
Table 1 below provides a summary of reliability test based on the Cronbach Alpha values of more than 0.7 which is higher than that suggested by Hair, et. al. (2006); Sekaran and Bougie (2010). Therefore, all the
variables were considered to have adequate reliability.

Table 1: Reliability scores of variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Number of Items</th>
<th>Cronbach’s Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneurial orientation</td>
<td>9</td>
<td>0.771</td>
</tr>
<tr>
<td>Market orientation</td>
<td>12</td>
<td>0.811</td>
</tr>
<tr>
<td>Business environment</td>
<td>12</td>
<td>0.923</td>
</tr>
<tr>
<td>Performance</td>
<td>6</td>
<td>0.939</td>
</tr>
</tbody>
</table>

The study variables were validated through a factor analysis. Prior to performing the analysis, the suitability of the data was assessed through two tests; Kaiser-Meyer-Olkin measure of sampling adequacy (KMO) and Bartlett’s Test of Sphericity. The KMO has to be more than 0.50 and Bartlett’s Test of Sphericity has to be significant. The KMO values for EO is 0.623 MO 0.775 and BE is 0.725 respectively, which can be considered as between middling and meritorious (Kaiser, 1974) and Bartlett’s Tests of Sphericity, which were significant at p<.001 Bartlett. Hence, the data was adequate for factor analysis.

4.2 Sample Characteristics

Table 2 below provides the profile of respondents. Majority of the owner/managers were male 91 percent compared to only 9 percent of them who are females. Most of them had a senior secondary school certificate qualification and below with 34.2 percent 2 percent and had obtained a Phd degree. More than 58.5 percent of the firms have employees between 10 - 49, and only 5.4 percent have been less than 10 employees. Most of the SMEs have 5 -10 years in operation, with about 37.3 percent, whereas only 2 percent is recorded for 30 years and above.

Table 2: Profile of Respondents

<table>
<thead>
<tr>
<th>Demographic variables</th>
<th>Categories</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>Male</td>
<td>91</td>
<td>91</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Education</td>
<td>SSCE</td>
<td>153</td>
<td>34.2</td>
</tr>
<tr>
<td></td>
<td>Diploma/NCE</td>
<td>96</td>
<td>21.4</td>
</tr>
<tr>
<td></td>
<td>HND/Degree</td>
<td>140</td>
<td>31.3</td>
</tr>
<tr>
<td></td>
<td>Master Degree</td>
<td>50</td>
<td>11.2</td>
</tr>
<tr>
<td></td>
<td>PhD</td>
<td>9</td>
<td>2</td>
</tr>
<tr>
<td>Number of Employees</td>
<td>Less than 10</td>
<td>24</td>
<td>5.4</td>
</tr>
<tr>
<td></td>
<td>Between 10-49</td>
<td>262</td>
<td>58.5</td>
</tr>
<tr>
<td></td>
<td>Between 50-199</td>
<td>162</td>
<td>36.1</td>
</tr>
<tr>
<td>Years in Operation</td>
<td>Below 5 years</td>
<td>71</td>
<td>15.8</td>
</tr>
<tr>
<td></td>
<td>Between 5-10 years</td>
<td>167</td>
<td>37.3</td>
</tr>
<tr>
<td></td>
<td>Between 11-15 years</td>
<td>105</td>
<td>23.4</td>
</tr>
<tr>
<td></td>
<td>Between 16-20 years</td>
<td>66</td>
<td>14.7</td>
</tr>
<tr>
<td></td>
<td>Between 21-25 years</td>
<td>20</td>
<td>4.5</td>
</tr>
<tr>
<td></td>
<td>Between 26-30 years</td>
<td>10</td>
<td>2.2</td>
</tr>
<tr>
<td></td>
<td>30 years and above</td>
<td>9</td>
<td>2</td>
</tr>
</tbody>
</table>

4.3 Test of Hypotheses

The association between EO and performance was tested using regression analysis (H1) and also MO to performance (H2). The regression analysis result in Table 3 indicated that EO is positively and significantly related to performance. This finding supports H1. Similarly, the finding indicated that MO is negatively related to performance, thus (H2) not supported.

Table 3: Regression of EO and MO

<table>
<thead>
<tr>
<th>Beta</th>
<th>t-value</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>EO</td>
<td>.279</td>
<td>5.962</td>
</tr>
<tr>
<td>MO</td>
<td>-.014</td>
<td>-.304</td>
</tr>
</tbody>
</table>

The moderating effect of BE on the association between EO and performance, and MO and performance was tested based on Baron and Kenny (1986) procedure for moderation test. In the first step, the direct effect of the independent variables was entered, and in the second step, the moderated variable was entered to assess whether the moderator (business environment) has a significant direct effect on the dependent variable (firm performance). Finally, in the third step, the interaction terms (which are the product of the
independent variables and the moderator variable) were entered to find out any additional variance explained. 

**Table 4: Result of moderation Test**

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>Std. Beta Step 1</th>
<th>Std. Beta Step 2</th>
<th>Std. Beta Step 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>EO</td>
<td>.279</td>
<td>.276</td>
<td>.273</td>
</tr>
<tr>
<td>MO</td>
<td>-.014</td>
<td>-.015</td>
<td>-.381</td>
</tr>
<tr>
<td>Interaction</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EO* Business environment</td>
<td></td>
<td></td>
<td>.152</td>
</tr>
<tr>
<td>MO* Business environment</td>
<td></td>
<td></td>
<td>.802</td>
</tr>
<tr>
<td>R² Change</td>
<td>.076</td>
<td>.076</td>
<td>.081</td>
</tr>
<tr>
<td>R² Change</td>
<td>.076</td>
<td>.000</td>
<td>.004</td>
</tr>
<tr>
<td>F – Change</td>
<td>18.338</td>
<td>.077</td>
<td>1.029</td>
</tr>
<tr>
<td>Significant Level</td>
<td>***.001</td>
<td>**.50</td>
<td>*0.1</td>
</tr>
</tbody>
</table>

From the above table 3, Inspection of the individual interaction terms between EO × BE, MO × BE, shows that business environment did not moderate the relationship between entrepreneurial and market orientations to SME performance; hence, H3 and H4 are not supported.

5. Discussion and Conclusion

The association between EO and performance is found to be significant in the present study, which is in line with the findings of previous research of Baverly et al., (2012); Dauda and Akingbade (2010); Oyedijo et al., (2012) all established significant positive association between market orientation and firm performance. Similarly, Jaiyeoba (2014) established a significant and positive association between market orientation and the overall economic and non-economic business performance of Bostwana’s service firms. The finding of Webster et al., (2014) indicated a significant association of market orientation and academic performance of business schools in United State. In the same vein, Kelson (2014) reported a significant association between market orientations and firm performance in Ghana. The finding of Webster (2014) supported the previous findings that established a significant association between market orientation and performance of Canadian medical biotechnology companies.

However, MO to performance relationship is found to be negative, the finding is in concord with the previous findings of Shehu and Mahmood (2014e) which examined the mediating role of organizational culture on the relationship between MO and performance of Nigerian SMEs, MO is found to have a perfect negative association with business performance. Demirbag, Lenny Koh, Tatoglu and Zaim, (2006) found no significant relationship between market orientation and organizational performance. Au and Tse, (1995) in their study which employed hotel as sample with marketing managers as respondents. The results indicated no significant association between market orientations and hotel performance. Additionally, the moderation effect of BE on the relationship between EO, MO and Performance is not supported, this is also in line with the previous studies of Sul (2012); Aziz and Yasin (2010); Abd Aziz (2010) and Ishengoma and Kappel (2011).

In conclusion, this study considered the concurrent association among EO, MO and performance of SMEs, with the moderating effect of business environment. The moderating effect satisfies the suggested procedure by Baron and Kenny (1986). The result established no moderating effect of BE on the association of EO, MO and SME performance. However, a significant and positive relationship established between EO and performance, while, a negative relationship found between MO and performance. Future research should collect data on a longitudinal basis in order to draw causal implications. Second, the study also relies on self-reports of SME owner/managers, employee rating of SME performance be consider. Future studies should investigate the mediating and or moderating role of any suitable variable on strategic orientation to performance relationship. Finally, future research be conducted on specific sector such as education, communication, wholesale and retail respectively.

References


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