

The Relationship Between Some Determinants Of SME

Performance In Nigeria: A Qualitative Approach

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Abstract

SMEs in Nigeria have been an avenue for Job creation and empowerment of citizens through poverty alleviation and providing about 70% of all job opportunities and also for capital formation. The aim of the study is to explore how market and entrepreneurial orientations related to SME performance in Nigeria. The study employed qualitative interview with one owner/manager of manufacturing SME in Kano, NVIVO trial version 10 was used for data analysis. The finding of the study indicated a significant positive relationship between the constructs. The study will contribute to the existing body of knowledge as the theory will be tested in Africa (Nigeria), it will also benefit SME managers, business practitioners, government at various levels and will also serve as a frame of reference to future studies. Suggestion for future research is provided.

Keywords: SME, Market orientation, Entrepreneurial orientation, Performance, Kano, Nigeria.

1.Introduction

Small and Medium enterprises have been widely acknowledged as the springboard for sustaining economic development, it is expected to play the role of entrepreneurial enhancement, to serve as facilitator of economic delivery and national development. It has been characterized by a large number of micro and medium businesses mainly in an informal sector Adeleja, cited in Abiodun 2003. In many economies, they account for a large segment of the productive population. SME serves as a source of employment generation, innovation which in turn stimulates capacity building and diffusion of skills. Over years, SMEs in Nigeria have been an avenue for Job creation and empowerment of citizens providing about 70% of all job opportunities and also for capital formation (Dauda& Akingbade,2010).

In spite of the fact that small and medium enterprises have been regarded as the main source for employment generation and technological development in Nigeria, the sector nevertheless had its own fair share of neglect as identified by Oluboba (2002), which includes: low level of entrepreneurial skills, poor management policies, constrained access to money and capital markets, low equity participation from the promoters because of insufficient personal savings due to their level of poverty and low return on investment, inadequate equity capital, poor infrastructural facilities, high rate of enterprise mortality, shortage of skilled manpower, multiplicity of regulatory agencies, societal and attitudinal problems, bureaucracy, integrity and transparency problems, lack of access to information given that it is costly, time consuming and complicated at times.

There is no universally single accepted definition of SMEs. Each country tends to develop its peculiar definition based on the expected role of Small and Medium enterprise in that country. Different definitions among countries have arisen from differences in industrial organization at different levels of economic development. A firm that is considered as small in economically advanced nations may be classified as medium or even large in developing country like Nigeria. Some of the variables/criteria used to classify SMEs in Nigeria include the number of employees, sales turnover, assets base, investment or a combination of some or all of these. Prior to 1992, different institutions in Nigeria adopted varying definitions of SMEs. These institutions included the Central Bank of Nigeria (CBN), Nigerian Bank of Commerce and industry, Centre for industrial Research and development and the National Economic Reconstruction fund. In 1992, the National council on industry (NCI) streamlined the definition. Cottage/micro industry- enterprise with total cost (including working capital but excluding cost of land) is less than five

million, with a labour size of not more ten workers; Small scale- industry- enterprise with total cost (including working capital but excluding cost of land) above five million but not exceeding fifty million, with a labour size of between above ten, but not forty nine workers; Medium- scale industry – enterprise with total cost (including working capital but excluding cost of land) above fifty million but not exceeding five hundred million, with a labour size between fifty and one hundred and ninety nine workers; and Large –scale- industry – enterprise with total cost (including working capital but excluding cost of land) above five hundred million and a labour size of over two hundred workers.

1.1 Problem Statement

Several studies have been conducted in relation to market orientation and SME performance. Among the studies that reported a significant positive relationship between market orientation and performance includes: ((Hooley et al. 2000; Slater and Narver 2000; Harris and Ogbonna2001; Shoham and Rose 2001; Subramanian and Gopalakrishna 2001; Agarwal, Erramalli&Dev 2003; Grainer &Padanyi 2005; Tajadenni et al. 2006)

However, other studies that failed to find a significant direct relationship between market orientation on overall business performance include: (Harris and ogbonna 2001; Benjamin, Sarah & Friday 2011; Suliyanto&Rahab2012).

The above indicate inconsistent result, hence, the need for further study, due to inconclusive findings. At the same time Suliyanto&Rahab (2012) recommended a further study on Market orientation and performance.

Several studies conducted have used entrepreneurial orientation in its relationship with firm performance and the possible outcomes are: (Lumpkin & Dess 1996; Wang 2008; Awang, Khalid, Kassim, Isma'il, Zain&Madar 2009; Merlo &Auh 2009; Faizol, Hirobuni& Tanaka 2010; Ogunsiji&Kayode 2010; Wales, Gupta &Mousa 2011; Mehrdad, AbdolrahimHamidreza, Mohsen &Ramin 2011; Zainol&Daud 2011; Idar&Mahmood 2011; Al-swidi&Mahmood 2012; Fatoki 2012). The above studies indicated either strong or weak relationship between the construct but there are evidences of such a relationship.

Wales, Gupta &Mousa (2011) asserted that most of EO studies were conducted in Europe and latin Europe. While most of EO literature were conducted in USA. They suggested in their findings an examination of the applicability of EO outside US context. They further argued on the omission of international EO research in so many countries i.e. Brazil, India and Russia. Nadkarni and Harrman cited in Wales, Gupta &Mousa (2011) contended the need for EO studies in other countries with socio- cultural differences from that of US and other developed nations such as Latin America, Sub-saharan Africa, Eastern Europe, Middle-East and South Asia.

2.1 Inter-play between Market orientation, Entrepreneurial orientation and SME Performance

2.2 Organizational Performance

Organizational performance is made up of the actual output and result of an organization measured against its input. Performance measurement enables organizations to focus on units that need improvement by evaluating the level of work progress in terms of cost, quality and time as well as consolidating in areas with higher output, Ringim (2012). There are a number of criteria's used in assessing the performance of SMEs and other organizations for long run survival in the event of globalization and competition. The key indicators used in measuring organizational includes among others: profitability, management performance, liquidity, leverage market share, innovation, productivity, quality of goods and services, human resource management (Dess& Robinson, 1984) cited in Ringim (2012). Performance is related to productivity, efficiency and effectiveness in optimal utilization of resources (Gleason, Mathur and Mathur, 2000). According to Kanyabi& Devi (2012) performance is the measurement of financial ability of the firm such as the amount of profit, profit as the percentage of sales, profit as a percentage of investment as well as growth in sales and growth in profits. Mandy, (2009) viewed performance as the outcome of adapting effective management process. He posits that organizational performance can be measured using a number of criteria's; which includes effectiveness, efficiency, growth and productivity. Organizational effectiveness may be measured in terms of financial, operational and behavioural measures respectively. First, financial measures may include profitability and growth which in turn can be used in assessing the financial performance of an organization. Secondly, the operational measures include productivity, resource acquisition, and efficiency and employee reaction on work flow as well as work support in organizations. Third, behavioral effective measures are made up of adaptability, satisfaction and good communication can be used to assess individual performance. He further lamented on the process of determining the performance of an organization which according to him requires a careful selection and measuring of a set of key variables that can allow organization to detect as well as monitor its competitive position in the business it engages. Olosula (2011) defined the concept of performance as an ability to assess the level of success of a business organization be it small or big. Small business organizations performance can be assessed in terms of size, employment, capital base as well as its profitability. Penrose (1995) cited in Shariff, Peous& Ali (2010) defined performance as a measure of how well a given firm achieves its goal. According to Shariff, Peous& Ali (2010) measures of performance can be viewed from (objective) that is more of financial assessment to organizational performance on return on equity, return on asset and sales growth. Trkman (2009) cited in Minai& Lucky (2011) asserted that performance measure is very crucial for entrepreneurial and small firms due to the fact that it helps the organization to ascertain the level of organizational success or failure and also serve as a yardstick for achieving sustainable improvement in the entrepreneurial and business activities.

2.3 Market Orientation

According to Polat and Mutlu (2012) Market orientation is defined as a firm's capability that is extremely valuable, rare, and that cannot easily be imitated, with emphasis on placing the customer in the centre of the firm's strategy and operations. The academic understanding of the market orientation concept can be grouped into two broad categories – behavioral approach and cultural approach. Proponents of the behavioral approach Kohli and Jaworski (1990) theorize market orientation as a set of continuing activities to expand customer happiness. On the other hand, proponents of the cultural approach Narver and Slater, (1990) emphasize on the shared values and beliefs in a firm that put the customer's interests over and above everything else. Even with the theoretical differences, the operationalization of the market orientation is not much different in the two approaches. While Kohli and Jaworski (1990), based on the behavioral approach, operationalized market orientation as comprising intelligence generation, intelligence dissemination, and organization-wide consciousness to it. Narver and Slater (1990), based on the cultural method, view market orientation as comprising customer orientation, competitor orientation and inter-functional coordination. Both these approaches are the same in the sense that customers remain the key component of market orientation thinking. MO mainly represents a response of firms to current market demand. For the moment, for small firms, MO can also help to improve performance. Many market-oriented studies evidenced that market-oriented culture seems to be a very vital determinant of improved business performance, due to the fact that customer needs, wants and preferences are identified, and market-oriented firms strive for better satisfaction of the customer, thereby, increasing the level of firm performance (Olavarrieta & Friedmann, 2008). According to Lee, Yoon, Kim & Kang (2006) market orientation refers to a kind of philosophy and behaviors directed towards identifying and knowing the needs of the targeted customer with a view of advancing means of satisfying such a customer better than the competitors.

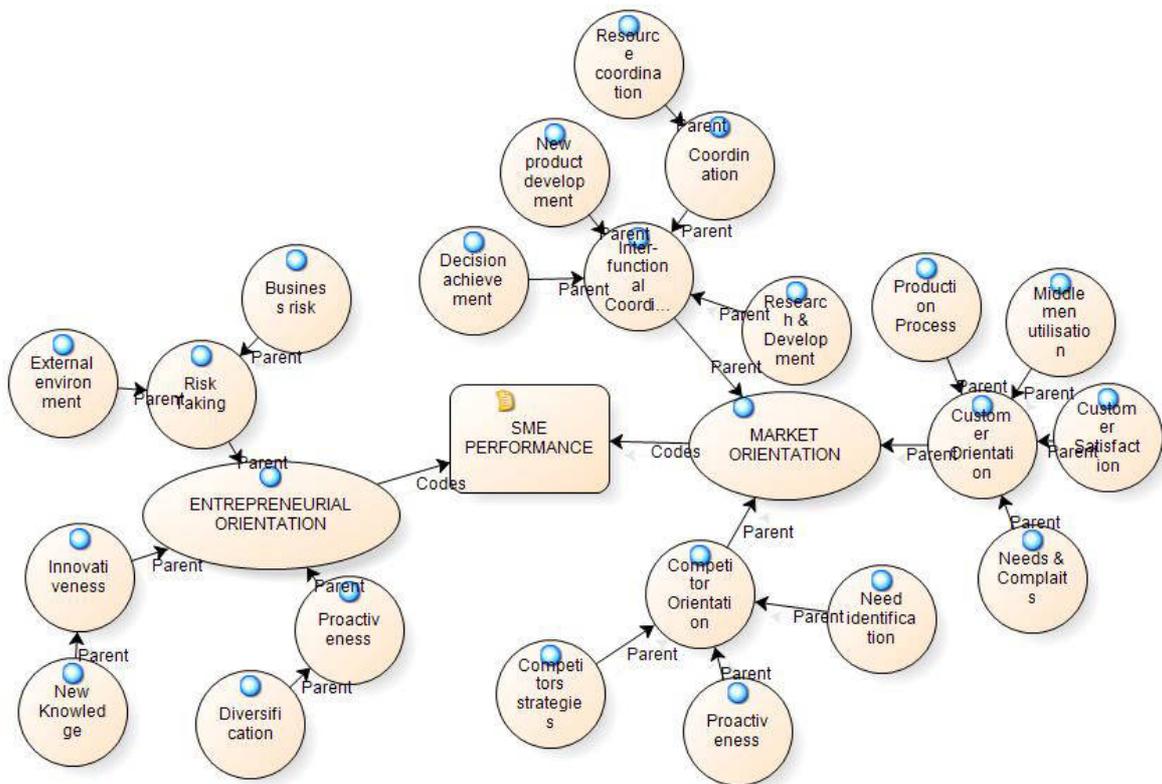
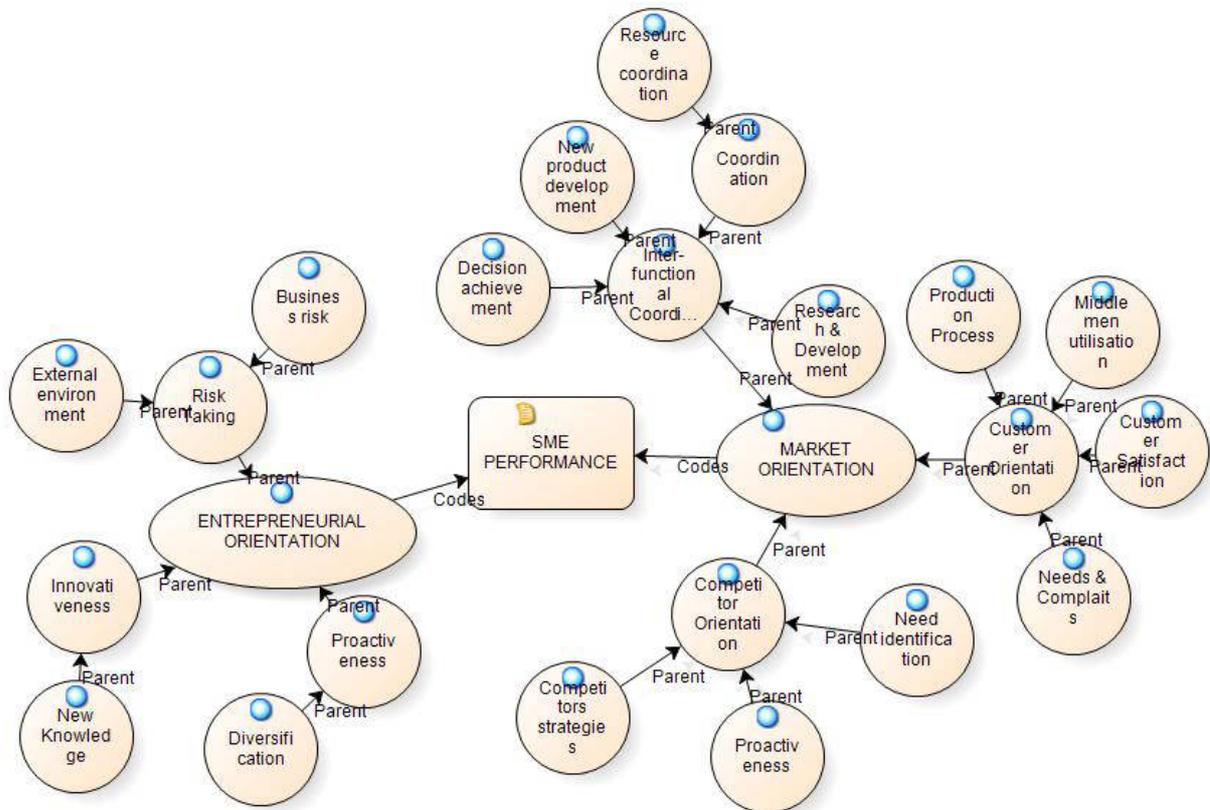
2.4 Entrepreneurial Orientation

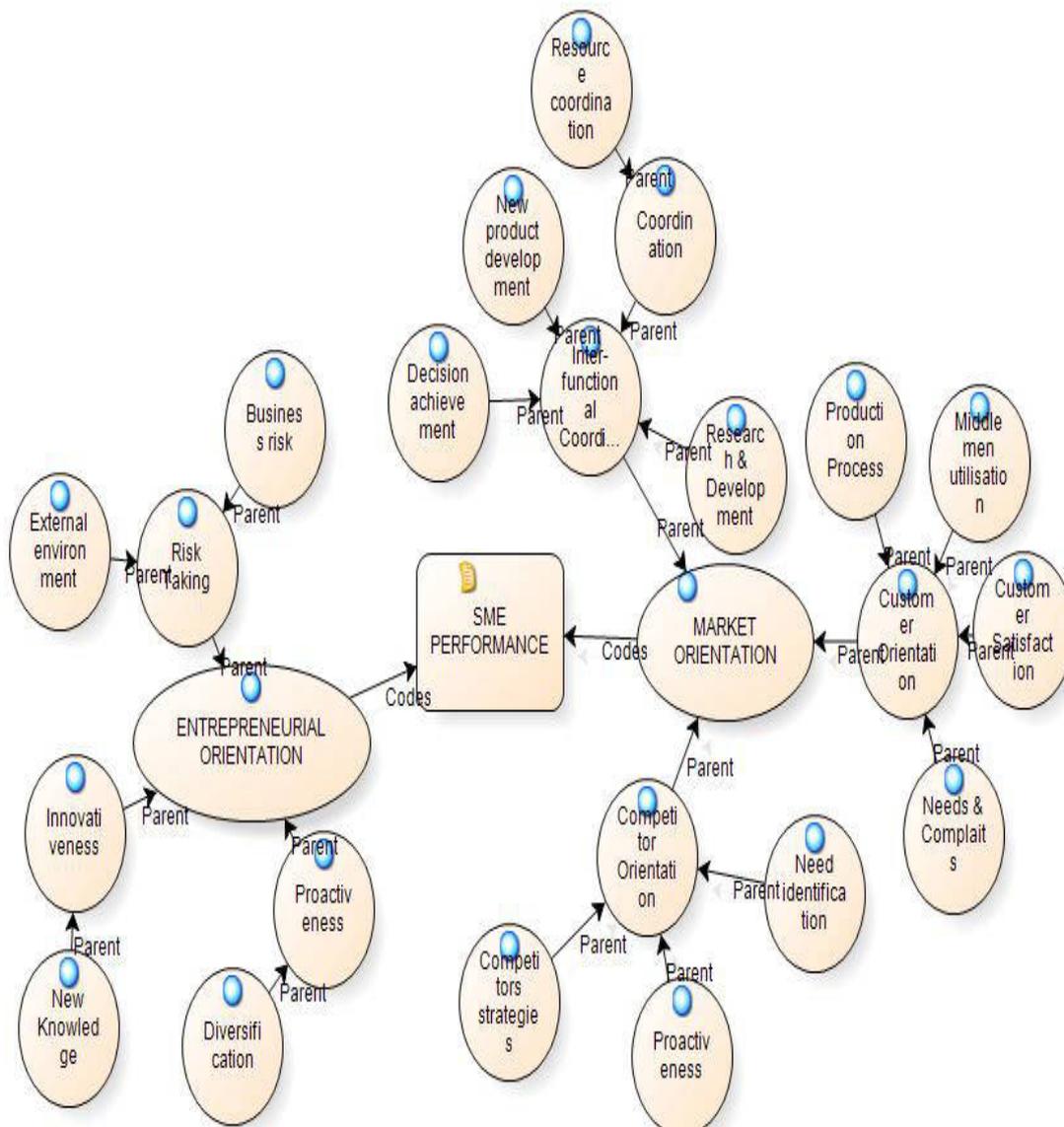
Lumpkin and Dess (1996) defined Entrepreneurial orientation as the process and decision-making activities that lead to new business and development. Covin & Slevin (2006) defined Entrepreneurial orientation to be the construct representing organizational entrepreneurial abilities. Miller (1983) offered perhaps the earliest operationalization of the EO concept. He defines an entrepreneurial firm as one that "engages in product marketing innovation, undertakes somewhat risky ventures, and is first to come up with proactive innovations." Morris and Paul (1987) define EO as the propensity of a company's top management to take calculated risks, be innovative, and be proactive. Numerous researchers have used this conceptualization and measure EO from innovativeness, risk-taking, and proactiveness in their works (for example Tan 1996; Naman and Slevin 1993; Covin and Slevin 1989). Firms need to be innovative in order to fulfill potential customer needs, engage in new exploration, support new ideas, experiment, and stimulate creativity. All of which are efforts that may result in new products (Li, Liu, and Zhao 2006), services, or technological processes (Lumpkin and Dess 1996), and change existing technologies or practices and ventures (Kimberly 1981). Firms with EO are characterized by risk-taking behavior motivated by high returns. They seize opportunities in the marketplace and obtain first-mover advantage (Lumpkin and Dess 1996; Tan 1996). Market-oriented firms focusing on articulated customer needs may miss opportunities for developing new products that customers cannot articulate (Christensen and Bower 1996; Hamel and Prahalad 1994), unless they also develop entrepreneurial orientations to ensure a proactive focus on innovations that meet emerging and unarticulated customer needs (Martin 1995; Slater and Narver 1995).

3. Methodology

The method employed in this study is purely qualitative, based on the reality and interpretivist point of view. Therefore, an interview is conducted with the owner/manager of one manufacturing SME in Kano State, north-western part of Nigeria. A qualitative software NVIVO10 trial version was used in the process of data analysis.

4. Result and Discussion





4.1 Market orientation

4.1.1 Customer orientation

Becoming a market oriented firm there is a need of thorough understanding and looking at customer preference.

“We always used our distributors to find out customer needs and complain, so as to consider them in our production processes. The primary target is to ensure that our customer derived the expected satisfaction”

This study indicates the needs of considering these basic needs and wants for any organization to remain relevant in the environment and to achieve its goals.

“we purchased van that will be taking goods to the door steps of our distributors and other customers”

4.1.2 Inter- functional coordination

This is the ability of management to ensure that all unit within the organization are integrated toward achieving common goal.

“the fundamental role of managers at all levels to ensure that all units activities are been integrated toward a common goal”

“All other resources such man, money and machine are coordinated”

“Equal opportunity is provided to all in managerial capacity to participate in decision making activities”

“we believe that each and every one of them has something to contribute toward the development of company activities and the nation at large”

The above orientations; customer, competitor and inter- functional coordination provides the overall market orientation, which several other studies reported significant relationship between the construct and performance: (Slater and Narver 2000; Grainer & Padanyi 2005; Tajadenni et al. 2006).

4.2 Entrepreneurial orientation

4.2.1 Proactiveness

It entails organizational activities ahead of other competitors producing similar or close substitute product or service.

“we plan to open additional branches in the remaining five north- western states of Nigeria in next ten (10) years.”

The above simply entails the firm ability in diversification through generation of additional branches that might give them an edge over and above others in the same industry.

4.2.2 Innovativeness

Innovation is a kind of organizations philosophy in allowing new ideas to be accepted and utilized.

“the ability to allow new ideas and knowledge in to an organizations activities”

The above shows how committed is the organization in relation to new ideas and proper utilization of such ideas.

4.2.3 Risk taking

Business is about taking risk, and there is always a correlation between risk and profitability level.

“the present national head office is in Kano- where 90% of the people are predominantly Muslims, part of our goal is to always look inward to go in line with the teaching of our religion, Islam”

“The issue of culture is not a problem”

“we are looking at the do and don'ts of the immediate community”

“In as much as one need to survive, there is the need of developing strategies to go in line with the advancement in technology, which is part of our agenda”.

Hence, based on the above statement, the firm has a strong emphasis on entrepreneurial orientation which supported previous studies, such as; (Zainol&Daud 2011; Idar&Mahmood 2011; Al-swidi&Mahmood 2012; Fatoki 2012).

5. Conclusion and Recommendation

In this study, a general overview of SME performance was provided including the research questions, objectives, problem statement, significance of the study as well as scope of the study. Issues relating to conceptual definitions, methodology with emphasis to qualitative research using NVIVO10 trial version software. Result was discussed with reference from the interview conducted. Future research should consider a focus group discussion to ascertain whether similar result can be obtained.

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