ENTREPRENEURIAL ORIENTATION, PERFORMANCE OF SMEs AND MODERATING EFFECT OF MICROFINANCE IN NIGERIA

BY

MOHAMMED ZANNAH

Thesis submitted to the School of Graduate Studies, University Putra Malaysia, in Fulfilment of the Requirement of the Degree of Master of Science

July 2017
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DEDICATION

This thesis is dedicated to my parent, wife, children and the entire family for their unmeasurable contribution during my programme.
Abstract of thesis presented to the Senate of Universiti Putra Malaysia in fulfilment of the requirement for the Degree of Master of Science

ENTREPRENEURIAL ORIENTATION, PERFORMANCE OF SMEs AND MODERATING EFFECT OF MICROFINANCE IN NIGERIA

By

MOHAMMED ZANNAH

July 2017

Chairman : Associate Professor Fauziah Mahat, PhD
Faculty : Economics and Management

This study examined the relationship between entrepreneurial orientation (innovation, risk taking and proactiveness) and SMEs Performance. Lack of research has been conducted on the entrepreneurial orientation in Nigeria. In addition, this study used microfinance facilities awareness, perception and acceptance as a Moderator. The study used existing theories of Research Based View and Expectancy Utility, incorporating various resources, internal and external factors that are leading to enterprises performance.

The methodology used in this study is quantitative, three hundred and forty (340) questionnaires were distributed and 308 were successfully retrieved using simple random sampling and analysed to answer the research objective, descriptive analysis, correlation, multiple linear regression and hierarchical multiple regression were conducted to determine the relationship between innovation, risk taking, proactiveness, microfinance awareness, perception, acceptance and SMEs Performance Moderating effect of microfinance.

Based on the six (6) hypothesis proposed, and analysed using correctional and regression analysis Microfinance awareness, perception and acceptance and entrepreneurial orientation has significant and positive relation with SMEs performance. The finding confirmed innovation and proactiveness are predictor of SMEs performance. Moreover based on the impact of the three moderator variables analysed by hierarchical regression on the relationship between entrepreneurial orientation and SMEs performance, it has been supported that risk taking and SMEs performance are moderated by all the moderator while proactiveness by only perception of Microfinance. None of the moderator change the relationship between innovativeness and SMEs performance. H1, H3, H4b, H5b, H5c, and H6c are
supported. Therefore managers should consider microfinance facilities to moderate risk taking and proactiveness to SMEs performance.

In conclusion, these findings would enable the academicians, government agencies and practitioners to focus on entrepreneur orientation in enhancing SMEs performance and also role of the microfinance facilities.
Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk Ijazah Master Sains

ORIENTASI KEUSAHAWANAN DAN PRESTASI PERUSAHAAN KECIL DAN SEDERHANA (SMEs) DAN KESAN MODERATOR TERHADAP KEMUDAHAN MIKROKEWANGAN DI NIGERIA

Oleh

MOHAMMED ZANNAH

Julai 2017

Pengerusi : Profesor Madya Fauziah Mahat, PhD
Fakulti : Ekonomi dan Pengurusan


Metodologi yang digunakan dalam kajian ini ialah kuantitatif, tiga ratus empat puluh (340) soal selidik telah diedarkan dan sebanyak 308 telah berjaya diterima kembali dan dianalisis bagi menjawab objektif kajian, analisis deskriptif, korelasi, regresi linear berganda dan regresi hierarki berganda telah dijalankan untuk menentukan hubungan antara inovasi, pengambilan risiko, keproaktifan, kesedaran mikrokewangan, persepsi, penerimaan dan kesan penyederhanaan prestasi SMEs terhadap mikrokewangan.

Berdasarkan enam (6) hipotesis yang dicadangkan, dan dianalisis menggunakan analisis koreksional dan regresional, kesedaran mikrokewangan, persepsi dan penerimaan dan orientasi keusahawanan adalah signifikan dan mempunyai hubungan yang positif dengan prestasi SMEs. Dapatan juga mengesahkan bahawa inovasi dan keproaktifan merupakan predikator prestasi SMEs. Tambahan pula, berdasarkan impak tiga pemboleh ubah moderator yang dianalisis menggunakan regresi hierarki ke atas hubungan antara orientasi keusahawanan dan prestasi SMEs, dapatan kajian menyokong bahawa pengambilan risiko dan prestasi SMEs dimoderasi oleh semua moderator, manakala keproaktifan oleh hanya persepsi tentang Mikrokewangan.
Tiada moderator mengubah hubungan antara keinovatifan dan prestasi SMEs. H1, H3, H4b, H5b, H5c dan H6c juga disokong. Oleh sebab itu, pengurus harus mengambil kira kemudahan mikrokewangan bagi memoderasikan pengambilan risiko dan keproaktifan terhadap prestasi SMEs.

Kesimpulannya, dapatan kajian ini dapat membantu ahli akademik, agensi kerajaan dan pengamal supaya dapat memberikan tumpuan kepada orientasi keusahawanan dalam usaha untuk meningkatkan prestasi SMEs dan juga peranan kemudahan mikrokewangan.
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Last but not the least special appreciation for my housemate especially Modu Lawan Gana, Shettima Alhaji Umar, Ali Kole, and Ali Kolo for your support and Corporation, also special thanks to Dr Bashir S. Mohd for aguidance and assistance.
I certify that a Thesis Examination Committee has met on 27 July 2017 to conduct the final examination of Mohammed Zannah on his thesis entitled "Entrepreneurial Orientation, Performance of SMEs and Moderating Effect of Microfinance in Nigeria" in accordance with the Universities and University Colleges Act 1971 and the Constitution of the Universiti Putra Malaysia [P.U.(A) 106] 15 March 1998. The Committee recommends that the student be awarded the Master of Science.

Members of the Thesis Examination Committee were as follows:

**Mohamed Hisham Dato Hj. Yahya, PhD**  
Senior Lecturer  
Faculty of Economics and Management  
Universiti Putra Malaysia  
(Chairman)

**Nazrul Hisyam bin Ab Razak, PhD**  
Senior Lecturer  
Faculty of Economics and Management  
Universiti Putra Malaysia  
(Internal Examiner)

**Zulnaidi Yaacob, PhD**  
Associate Professor  
Universiti Sains Malaysia  
Malaysia  
(External Examiner)

[Signature]

**NOR AINI AB. SHUKOR, PhD**  
Professor and Deputy Dean  
School of Graduate Studies  
Universiti Putra Malaysia

Date: 28 September 2017
This thesis is submitted to the senate of University Putra Malaysia for acceptance as fulfilment of the requirement for the degree of Masters of Science. The members of the Supervisory Committee were as follows:

**Fauziah Mahat, PhD**  
Associate Professor  
Faculty of Economic and Management  
Universiti Putra Malaysia  
(Chairman)

**Bany Ariffin Amin Noordin, PhD**  
Senior Lecturer  
Faculty of Economic and Management  
Universiti Putra Malaysia  
(Member)

---

**ROBIAH BINTI YUNUS, PhD**  
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School of Graduate Studies  
Universiti Putra Malaysia

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Declaration by graduate student

I hereby declare that the thesis is based on my original work:

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This is to confirm that:

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Signature: __________________________
Name of Chairman of Supervisory Committee: Associate Professor Dr. Fauziah Mahat

Signature: __________________________
Name of Member of Supervisory Committee: Dr. Bany Ariffin Amin Noordin
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Title</th>
<th>Pages</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABSTRACT</td>
<td></td>
<td>i</td>
</tr>
<tr>
<td>ABSTRAK</td>
<td></td>
<td>iii</td>
</tr>
<tr>
<td>ACKNOWLEDGEMENTS</td>
<td></td>
<td>v</td>
</tr>
<tr>
<td>APPROVAL</td>
<td></td>
<td>vi</td>
</tr>
<tr>
<td>DECLARATION</td>
<td></td>
<td>viii</td>
</tr>
<tr>
<td>LIST OF TABLES</td>
<td></td>
<td>xiv</td>
</tr>
<tr>
<td>LIST OF FIGURES</td>
<td></td>
<td>xvi</td>
</tr>
<tr>
<td>LIST OF ABBREVIATIONS</td>
<td></td>
<td>xvii</td>
</tr>
<tr>
<td>CHAPTER</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>INTRODUCTION</td>
<td>1</td>
</tr>
<tr>
<td>1.1</td>
<td>Introduction</td>
<td>1</td>
</tr>
<tr>
<td>1.2</td>
<td>Background of the Study</td>
<td>1</td>
</tr>
<tr>
<td>1.3</td>
<td>Problem Statement</td>
<td>4</td>
</tr>
<tr>
<td>1.4</td>
<td>Research Question</td>
<td>6</td>
</tr>
<tr>
<td>1.5</td>
<td>Objective of the Study</td>
<td>6</td>
</tr>
<tr>
<td>1.6</td>
<td>Significance of the Study</td>
<td>7</td>
</tr>
<tr>
<td>1.6.1</td>
<td>Extension of New Knowledge</td>
<td>7</td>
</tr>
<tr>
<td>1.6.2</td>
<td>Significance to the SME</td>
<td>7</td>
</tr>
<tr>
<td>1.6.3</td>
<td>Significance to the government</td>
<td>7</td>
</tr>
<tr>
<td>1.7</td>
<td>Scope and limitation of the study</td>
<td>8</td>
</tr>
<tr>
<td>1.8</td>
<td>Organisation of Chapters</td>
<td>8</td>
</tr>
<tr>
<td>2</td>
<td>LITERATURE REVIEW</td>
<td>10</td>
</tr>
<tr>
<td>2.1</td>
<td>Introduction</td>
<td>10</td>
</tr>
<tr>
<td>2.2</td>
<td>Challenges of Microfinance Bank</td>
<td>10</td>
</tr>
<tr>
<td>2.3</td>
<td>Challenges of SMEs</td>
<td>10</td>
</tr>
<tr>
<td>2.4</td>
<td>Definitions of concepts</td>
<td>11</td>
</tr>
<tr>
<td>2.4.1</td>
<td>Small and Medium Enterprises (SMEs)</td>
<td>11</td>
</tr>
<tr>
<td>2.4.2</td>
<td>Microfinance Institute</td>
<td>12</td>
</tr>
<tr>
<td>2.4.3</td>
<td>Microfinance facilities Awareness</td>
<td>12</td>
</tr>
<tr>
<td>2.4.4</td>
<td>Microfinance Facilities Perception</td>
<td>13</td>
</tr>
<tr>
<td>2.4.5</td>
<td>Microfinance Facilities Acceptance</td>
<td>13</td>
</tr>
<tr>
<td>2.4.6</td>
<td>Entrepreneurial Orientation</td>
<td>13</td>
</tr>
<tr>
<td>2.5</td>
<td>Theories Underpinning the Research</td>
<td>14</td>
</tr>
<tr>
<td>2.5.1</td>
<td>Resources Base View Theory</td>
<td>14</td>
</tr>
<tr>
<td>2.5.2</td>
<td>Expected Utility Theory</td>
<td>15</td>
</tr>
<tr>
<td>2.6</td>
<td>Previous Studies Related to the Research</td>
<td>16</td>
</tr>
<tr>
<td>2.6.1</td>
<td>SMEs Performance</td>
<td>16</td>
</tr>
<tr>
<td>2.6.2</td>
<td>Relationship between Entrepreneurial Orientation and SMEs Performance</td>
<td>17</td>
</tr>
</tbody>
</table>
2.6.3 Relationship between Demographic Factors and SMEs Performance

2.7 Moderating variable

2.7.1 Relationship between SMEs Performance and Awareness of Microfinance Facilities

2.7.2 Relationship between SMEs Performance and Perception of Microfinance Facilities

2.7.3 Relationship between SMEs Performance and Acceptance of Microfinance Facilities

2.8 Contribution of the study

2.9 Hypothesis Development

2.9.1 Innovativeness and SME Performance (hypothesis 1)

2.9.2 Risk Taking and SME Performance (Hypothesis 2)

2.9.3 Proactiveness and SMEs Performance (Hypothesis 3)

2.9.4 Awareness of Microfinance Facilities Moderate Entrepreneurial Orientation and SMEs Performance (Hypothesis 4)

2.9.5 Perception of Microfinance Facilities Moderate Entrepreneurial Orientation and SMEs Performance. (Hypothesis 4)

2.9.6 Acceptance of Microfinance Facilities Moderate Entrepreneurial Orientation and SMEs Performance (Hypothesis 6)

2.10 The Framework of the Study

2.11 Chapter summary

3 METHODOLOGY

3.1 Introduction

3.2 Research Design

3.3 Location of the Study

3.4 Population of the study

3.5 Population size and sampling technique

3.6 Research Instrument

3.7 Procedure of Data Collection

3.8 Validity and Reliability

3.8.1 Pilot Study

3.8.2 Validity

3.8.3 Reliability

3.9 Exploratory Data Analysis

3.9.1 Perception of Microfinance

3.9.2 Acceptance of Microfinance

3.9.3 Awareness of Microfinance

3.12 Collinearity Diagnostic

3.9.4 SMEs Performance

3.9.5 Innovativeness

3.9.6 Risk Taking

3.9.7 Proactiveness

3.9.8 Data Analysis

3.10 Descriptive Analysis
3.11 Pearson Correlation
3.12 Multiple Linear Regression
3.13 Testing for Moderating Effect
3.14 Summary of the Chapter

4 RESULTS AND DISCUSSION
4.1 Introduction
4.2 Respondents Profile
  4.2.1 Gender
  4.2.2 Age Categories
  4.2.3 Religion
  4.2.4 Education Level
  4.2.5 Marital Status
  4.2.6 Business Sector
  4.2.7 Business Years
  4.2.8 Number of Employees
  4.2.9 Annual Turnover
  4.2.10 Ownership
4.3 Multiple Regression Measuring Predictor and Dependent Variable
  4.3.1 Result of the Model
4.4 Pearson Correlation Analysis
  4.4.1 Results of Direct Relationship between Moderator Variables and Dependent Variable
4.5 Hierarchical Multiple Regression
  4.5.1 Results of Moderating Effects between Predictor and Dependent Variables
  4.5.2 Hypothesis testing for moderating effect of Awareness of Microfinance facilities on Innovation and SMEs Performance
  4.5.3 Hypothesis testing for moderating effect of Awareness of Microfinance on the relationship between Risk Taking and SMEs Performance
  4.5.4 Hypothesis testing for moderating effect on Awareness of Microfinance on the relationship between Proactiveness and SMEs Performance
  4.5.5 Hypothesis testing for moderating effect of the Perception of Microfinance on the relationship between Innovativeness and SMEs Performance
  4.5.6 Hypothesis testing for moderating effect on the Perception of Microfinance on the relationship between Risk Taking and SMEs Performance
  4.5.7 Hypothesis testing for moderating effect of the Perception of Microfinance on the relationship between Proactiveness and SMEs Performance
  4.5.8 Hypothesis testing for moderating effect of the Acceptance of Microfinance on the relationship between Innovativeness and SMEs Performance
4.5.9 Hypothesis testing for moderating effect on the Acceptance of Microfinance on the relationship between Risk Taking and SMEs Performance

4.5.10 Hypothesis testing for moderating effect on the Acceptance of Microfinance on the relationship between Proactiveness and SMEs Performance

4.6 Summary of the Hypothesis Findings

5 CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

5.2 Summary Finding and Research

5.3 Conclusion

5.4 Contribution of the study

5.5 Implication of the Study

5.6 Limitation

REFERENCES

APPENDICES

BIODATA OF STUDENT

LIST OF PUBLICATIONS
# LIST OF TABLES

<table>
<thead>
<tr>
<th>Table</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1</td>
<td>Previous Studies on Entrepreneur Orientation and SMEs Performance and Moderator</td>
</tr>
<tr>
<td>2.2</td>
<td>Summary of Hypothesis and expected relationship</td>
</tr>
<tr>
<td>3.1</td>
<td>Coefficients for Pre-test and Final Test Reliability</td>
</tr>
<tr>
<td>3.2</td>
<td>Collinearity Diagnostic Test</td>
</tr>
<tr>
<td>3.3</td>
<td>Questionnaires Sources</td>
</tr>
<tr>
<td>4.1</td>
<td>Respondent’s Profile (n = 308)</td>
</tr>
<tr>
<td>4.2</td>
<td>ANOVA of Multiple Linear Regression Model of SMEs Performance</td>
</tr>
<tr>
<td>4.3</td>
<td>Model Summary</td>
</tr>
<tr>
<td>4.4</td>
<td>Multiple Linear Regression on SMEs Performance</td>
</tr>
<tr>
<td>4.5</td>
<td>Relationship between Independent Variables and SMEs Performance</td>
</tr>
<tr>
<td>4.6</td>
<td>Effect of Awareness of Microfinance on the Relationship between Innovativeness and SMEs Performance</td>
</tr>
<tr>
<td>4.7</td>
<td>Effect of Awareness of Microfinance on the Relationship between Risk Taking and SMEs Performance</td>
</tr>
<tr>
<td>4.8</td>
<td>Effect of Awareness of Microfinance on the Relationship between Proactiveness and SMEs Performance</td>
</tr>
<tr>
<td>4.9</td>
<td>Effect of Perception of Microfinance on the Relationship between Innovativeness and SMEs Performance</td>
</tr>
<tr>
<td>4.10</td>
<td>Effect on the Perception of Microfinance on the Relationship between Risk Taking and SMEs Performance</td>
</tr>
<tr>
<td>4.11</td>
<td>Effect of Perception of Microfinance on the Relationship between Proactiveness and SMEs Performance</td>
</tr>
<tr>
<td>4.12</td>
<td>Effect on the Acceptance of Microfinance on the Relationship between Innovativeness and SMEs Performance</td>
</tr>
<tr>
<td>4.13</td>
<td>Effect on the Acceptance of Microfinance on the Relationship between Risk Taking and SMEs Performance</td>
</tr>
</tbody>
</table>
4.14 Effect on the Acceptance of Microfinance on the Relationship between Proactiveness and SMEs Performance

4.15 Summary of the finding based on hypothesis
## LIST OF FIGURES

<table>
<thead>
<tr>
<th>Figure</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1</td>
<td>Framework Showing the Relationship between the entrepreneurial orientation and SMEs performance</td>
<td>31</td>
</tr>
<tr>
<td>3.1</td>
<td>Research Design and Process</td>
<td>34</td>
</tr>
<tr>
<td>3.2</td>
<td>Map of Nigeria showing the North East states</td>
<td>35</td>
</tr>
<tr>
<td>3.3</td>
<td>Moderator Model (Baron &amp; Kenny, 1986)</td>
<td>45</td>
</tr>
<tr>
<td>3.4</td>
<td>Moderation Relationship between Variables (a = Predictor; b = Moderator; c = Outcome) (Kenny, 2001)</td>
<td>46</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Description</td>
<td></td>
</tr>
<tr>
<td>--------------</td>
<td>-------------</td>
<td></td>
</tr>
<tr>
<td>ACGS</td>
<td>Agricultural Credit Guarantee Scheme</td>
<td></td>
</tr>
<tr>
<td>RBV</td>
<td>Resource Base View</td>
<td></td>
</tr>
<tr>
<td>CBN</td>
<td>Central Bank of Nigeria</td>
<td></td>
</tr>
<tr>
<td>DV</td>
<td>Dependent Variable</td>
<td></td>
</tr>
<tr>
<td>EDA</td>
<td>Exploratory Data Analysis</td>
<td></td>
</tr>
<tr>
<td>EO</td>
<td>Entrepreneur Orientation</td>
<td></td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
<td></td>
</tr>
<tr>
<td>H</td>
<td>Hypothesis</td>
<td></td>
</tr>
<tr>
<td>IV</td>
<td>Independent Variable</td>
<td></td>
</tr>
<tr>
<td>MFI</td>
<td>Microfinance Institution</td>
<td></td>
</tr>
<tr>
<td>MSME</td>
<td>Micro Small and Medium Enterprises</td>
<td></td>
</tr>
<tr>
<td>MV</td>
<td>Moderating Variable</td>
<td></td>
</tr>
<tr>
<td>MYR</td>
<td>Malaysian Ringgit</td>
<td></td>
</tr>
<tr>
<td>NDE</td>
<td>National Directory for Employment</td>
<td></td>
</tr>
<tr>
<td>NAPEP</td>
<td>National Poverty Eradication Programme</td>
<td></td>
</tr>
<tr>
<td>NERFUND</td>
<td>National Economic Reconstruction Fund</td>
<td></td>
</tr>
<tr>
<td>ROSCA</td>
<td>Rotatory Saving and Credit Association</td>
<td></td>
</tr>
<tr>
<td>SD</td>
<td>Standard Deviation</td>
<td></td>
</tr>
<tr>
<td>SHG</td>
<td>Self Help Group</td>
<td></td>
</tr>
<tr>
<td>SME</td>
<td>Small and Medium Enterprises</td>
<td></td>
</tr>
<tr>
<td>SMEDAN</td>
<td>Small and Medium Enterprises Development Agency</td>
<td></td>
</tr>
<tr>
<td>SMEEIS</td>
<td>Small and Medium Scale Enterprises Equity Scheme</td>
<td></td>
</tr>
<tr>
<td>VIF</td>
<td>Variance Inflation Factor</td>
<td></td>
</tr>
</tbody>
</table>
CHAPTER 1

INTRODUCTION

1.1 Introduction

This section discusses the background of the study, the problem statement, and research questions, together with the objectives and significance of this study. Therefore, this chapter introduced the focus of this study, which is the relationship between entrepreneurial orientation and SMEs’ performance, the moderator effect of awareness perception and acceptance of microfinance facilities in Nigeria. The statement of research problem, objective of the research, the research question and also significant of this study are also highlighted in this chapter. The organisation of chapters has been mention at the end of the chapter.

1.2 Background of the Study

The role of entrepreneurial orientation on the firm’s performance is a vital issue in most of the entrepreneurship studies. The term entrepreneurial orientation is the strategic resources of a firm, and it has been defined by different scholars, it was originated by Mintzberg, 1973. Entrepreneurial orientation (EO) is the firm strategic policy that determines the entrepreneurial intention that differentiates entrepreneurs from non-entrepreneurs because of their action on risk taking, proactiveness and innovativeness measures (Miller, 1989; Okhomina, 2010; Micheal et al., 2015). Entrepreneurs of a firm should adopt this entrepreneurial orientation (EO) process to achieve the firm’s profitability and their organisational goal. Miller (1983) has developed an entrepreneur orientation framework using three (3) constructs which includes innovativeness, risk taking, and proactiveness measure. Subsequently, another framework was developed by (Lumpkin & Dess, 1996) in addition to innovativeness, risk taking, and proactiveness, which are; competitive aggressiveness and autonomy. Entrepreneurial orientation is different from the term entrepreneurship. According to Miller (2011) entrepreneurship is the process whereby the entrepreneur highlights the business opportunity and addressing decisions on how and what to undertake. Entrepreneur orientation is an entrepreneurial strategic process that implies what new products will undertake (Lumpkin & Dess, 1996). Literature shows entrepreneur orientation as uni-dimensional and multi-dimensional. This study adopts Miller’s (1983) construct of uni-dimensional, of entrepreneurial orientation (innovativeness, risk taking and proactiveness). The relationship is inconclusive because some studies found that entrepreneurial orientation leads to the firm’s performance and others found that it does not have a significant effect between entrepreneurial orientation and the performance of the firm.
SMEs are one of the important components of the economy. It contributes a total of 98% to some developed nations as well as more than 60% of their employment, in developing countries in terms of GDP, e.g. Malaysia 43.7%, Korea 50%, Japan 55%, China 60% (Normah, 2006) and the current figure shows SMEs contribute GDP of 58% to China, 32%-45% to Malaysia and 10% to Nigeria (Akinwale, et al. 2017; Musa & Chinniah, 2016; Hong & Lu, 2016). The history of small and medium enterprises development and performance in Nigeria was traced back to the colonial period, before the independence of Nigeria. The first effort was made in the year 1945 when an essential paper No. 24 (Developmental planning and Decolonization in Nigeria) was proposed for years. The development plan and welfare of the country was presented in 1946, which made small and medium enterprises a necessity. This marked the beginning of small and medium enterprises in the country. Furthermore, another development is the adoption of Economic Reforms of 1986 which made small and medium enterprises as a tool or strategy for poverty alleviation and national economic development (Aremu, 2011).

In Nigeria, small and medium enterprises have a combination of three different sources of financing or capital, comprising personal savings, debt and equity capital. Most of the SMEs depend on personal savings to take up their business or expand their existing business. Aruwa (2005) found that most of the SMEs in Nigeria do not participate in equity capital financing as they are not registered with the Nigerian capital market despite a reduction in the conditions of registration to enable them to get financing opportunity in the second tier security market. The focus of this research is on entrepreneur orientation and SMEs performance in Nigeria and this research has include microfinance facilities as a moderator.

Previous studies show that SMEs are not participating in equity and debt financing due to lack of awareness of the potential capital source, dilution of control fear and loss of ownership and others unable to meet requirements laid down, such as collateral and guarantors (Aruwa, 2005); therefore, micro financing will fill the gap. Prior to this, the Nigerian government established the small and medium scale enterprises equity investment scheme (SMEEIS) which direct commercial banks to set aside certain percentage of their profit to finance SMEs, but only a few qualify and enjoy the scheme because most of the SMEs are not eligible to meet the requirement laid down by the Central Bank of Nigeria (Peter & Inegbenebor, 2009).

Moreover, another effort has been made, in addition, the Nigerian government has launched many entrepreneurial development programmes and policies such as, the establishment of the Nigerian Industrial Development Bank, Industrial Development Centres, World Bank small and medium I and II loan scheme, National Economic Reconstruction Funds (NERFUNDs) Rural Banking Programme, Agricultural Credit Guarantee Scheme (ACGS), Agricultural and Rural Development Cooperative Banks (A RDCB), Community Banks and some institutional arrangement like the National Directorate of Employment (NDE), Peoples Bank, Operation Feed the Nation, National Poverty Eradication Programme (NAPEP) to provide the entrepreneurs and poor people in the country with financial services to take up businesses, to alleviate
poverty and to enhance businesses and living standards. They sponsor entrepreneur activities like trading, tailoring, blacksmithing, transportation and others (Obdeyi, 2015; Iganiga, 2008; Oghajafor et al., 2011). With all these efforts by the government, still the goal has not been achieved due to the lack of awareness and wrong perception of the programmes by the enterprises.

Moreover, other issues that lead to failure of SMEs includes; lack of finance, education, security, corruption, infrastructure among others (Ariyo, 2009; Unakuse, 2004; Wale & Awe, 2000; Adenikuyu, 2005) which led to establishment of the small and medium scale development agency (SMEDAN), in 2003 under the Ministry of Trade and Investment to facilitate the promotion and development of small and medium enterprises in Nigeria, in order to achieve the transformation agenda of entrepreneurship development of the country.

The history and practice of Microfinance can be traced back to Muhammad Yunus the founder of the Bangladesh Grameen Bank in 1976, when government survey found that almost 80% of the country's citizen were in poverty, he therefore, started providing loan to the poor household in the local areas with certain amount money as an experiment to run a simple business. He then found that they were making profits and repaying back relatively and reliably, even though there was no collateral (Muhammad & Jolis, 2009). He later convinced the apex banks in the country to set up a branch, to finance poor entrepreneurs in other locations. In 2001, he moved from microcredit to microfinance. Microcredit focused on giving loans to the poor, to reduce poverty and social change. Whereas, microfinance offers access to financial services but is more broadly focused on accepting on saving and not just the provision of loans (Beatriz & Jonathan, 2004).

The practice of microfinance in Nigeria started with informal microfinance or otherwise with self-help groups and associations. These groups and associations are organised by the people in the rural areas to finance the business activities of poor people with low income to provide themselves with credit to finance their business enterprises and personal activities. Some of these groups and associations include Self-Help Group (SHG), Rotating Saving and Credit Association (ROSCAs), Saving Collector and Cooperative Society (SCACS) among others. These informal microfinancing are limited to people they are serving and money available for loan. Some of these are still in existence in some rural areas in Nigeria but are not recognised and registered by the government. The Government has interfered in microfinance activities in Nigeria due to the inability of the informal self-help groups and associations to provide needed financial service to the low-income earner or poor people in both rural and urban communities (Obdeyi, 2015; Iganiga, 2008).

The Microfinance bank in Nigeria, came into existence in 2008, under the microfinance policy, regulatory and supervisory framework of Nigeria on 15th of December, 2007. This has led the existing community banks in the country to convert to microfinance bank (MFB) with a minimum paid up capital to the central bank of
Nigeria, N20 million Nigeria naira for a unit microfinance bank in a local government and N1.0 billion Nigeria naira for a state microfinance bank that operates within the state. Those who are unable to meet the requirements within the stipulated time can merge with others. This is because the former community banks were institutionally weak, less capitalised and left a large number of people unattended to, poor employment generation and poverty reduction. A microfinance bank in Nigeria can be established by any individual, a group of individuals, community associations, private corporation entities and foreign investors (Central Bank of Nigeria, 2005).

Moreover, microfinance is about the provision of credit financial services to poor people in the rural and urban areas who have no access to conventional banks but has the intention to establish business and also to serve as a linkage between the government and entrepreneurial. Microfinance banks are licensed financial institutions established to provide credit, mobilise saving and provide employment opportunities to the enterprises, low income earners or poor and economically active people in the rural and the urban areas. Microfinance banks provide both financial and non-financial services to overcome the need of small and medium enterprises (Central Bank of Nigeria, 2005). Microfinance and microcredit are interchangeable terms in Nigeria as it is a process of providing financial services to low-income house and micro, small and medium enterprises to meet their entrepreneurial financial requirement for growth (Ugoni, 2016).

This study will focus on a strategic resource known as entrepreneurial orientation and its relationship with SMEs performance and moderating role of awareness, perception and acceptance of microfinance facilities in Nigeria. Rauch et al. (2009) highlighted that there is need for a moderator variable in addition to the predictor and dependent variable on the relationship between entrepreneurial orientation and SMEs performance, Therefore, we used moderator in this study which is sourced from their capital in Nigeria.

1.3 Problem Statement

Small and medium scale enterprises in Nigeria were left behind in terms of performance, due to this reason they have not played the expected vibrant role in the economic growth and development of the country. The Nigerian government has made a budgetary allocation to the sector and has also taken various measures in terms of developmental policies and programmes in order to enhance the performance of the sector (SME), (Oghajafor et al., 2011) but with all these efforts from the government, their performance has been minimal. Almost 70% of SMEs in Nigeria have declined in their first five years of establishment (Idemobi, 2012; Basil, 2005), if the entrepreneurs and the managers are not well trained and educated on how to manage and finance their businesses will collapse, (Mbonyane, 2006) as stated by Wu (2007) Without the knowledge and effort to transform the firm’s resources in any business, no business resources along will lead to the business enterprise performance.
Furthermore, another problem of SMEs performance in Nigeria is low rate of innovation, risk taking and proactive (Abereijo, 2008). Another, previous studies have shown that half of the small and medium enterprises in Nigeria are not receiving external finance and 77% of these are not having access to external finance due to one reason or another (Aremu, 2011). In the literature of small and medium enterprises, the problems they encounter include: managerial, the source of capital and performance which affect their competitive advantage and survival. How to source fund and cost at which it will raise, lack of information, innovation and resources usage are among other problems faced by SMEs in developing countries (Zeneli & Zaho, 2014). The financing problems of SMEs in Nigeria have led to the establishment of the small and medium scale enterprises investment scheme which directs the commercial banks in Nigeria to set aside 10% of their profit after tax to finance SMEs. This programme has failed due to lack of compliance by some banks, lack of the requirement for the SMEs and awareness & acceptance (Peter & Inegbenebor, 2009). This led to the establishment of the microfinance institute to facilitate the disbursement or channelling of such funds to SMEs to serve as a replacement for SMEEIS (Daud, 2012).

Olowe, Moradeye & Babalola (2013) reported that the major obstacle faced by SMEs performance is access to funds to finance the enterprises. He further stated that even when the credit facilities are available, there is a problem of awareness of the product and collateral requirement. The major problem of SMEs’ performance in developing countries particularly Nigeria is access to loan and the microfinance institute is the easiest means to access funds especially for those who have no access to conventional banks (Idowu, 2008).

Furthermore another problem faced by SMEs in Nigeria is both internal and external. The internal problem includes psychological behaviour due to our education practice system, government negligence in the implementation of policy among others. For the external problem, the small and medium enterprise are not well organised and structured especially in terms of informal labour intensive, low level of management, marketing, accounting practices and legal aspect (Basil, 2005). With all the programmes and policies provided by the government of Nigeria to finance SMEs, access to finance still remains as the major problem to the success of SMEs (Gbandi & Amissah, 2014).

Having observed from existing literature some basis challenges faced by SMEs in the developing countries in general and Nigeria in particular, it was revealed that the problem of entrepreneurship orientation, awareness and perception are the major bottle-necks to the progress of SMEs. The result in previous studies are inconclusive and mixed result, Kreiser, et al. (2013) found innovation and proactiveness has positive significant effect on SMEs performance but risk taking has negative effect, Krauss, et al. (2012) found innovation and risk taking has negative effect on SMEs performance while proactiveness has positive effect. Going by the result of previous studies there is mixed result, moderator are introduce to strengthen relation, when there is mixed result, (Rauch, et al, 2009; Wicklund & Shepherd, 2003; Baron &
Kenny, 1986), these moderator include internal factor of the firm and external factors of the society, (Wicklund & Shepherd, 2003).

Therefore the focus of this study is on relationship between entrepreneurial orientation and SMEs performance in North east Nigeria. This research seeks to empirically examine the relationship between entrepreneurial orientation and SMEs performance. Entrepreneurial orientation comprises of innovations of the product, risk taking and proactiveness of product in the market ahead of competitors and customer demand. Again, the moderating effect of awareness, perception, and acceptance of microfinance facilities was investigated on the effects of SMEs performance and entrepreneurial orientation in Nigeria. To the best of my knowledge and research, only a few researches have been carried out in this regard and is the only direct relationship between entrepreneurial orientation and firm performance. Also, financial capital used in previous researches are in general while SMEs are very specific. This study adopts the microfinance facilities because, in Nigeria, the financial capital of SMEs is from microfinance. Therefore, this study is based on the relationship between entrepreneurial orientation and SMEs performance and the moderator effect of microfinance facilities (awareness perceptions and acceptance) in Nigeria.

1.4 Research Question

In order to fulfil the object of the study, this research attempts to answer the following questions:

i. Does entrepreneurial orientation (EO) improve the performance of SMEs?
ii. Does awareness, perception and acceptance of microfinance facilities, related to SMEs performance?
iii. Does awareness, perception and acceptance of Microfinance facilities moderate the relationship between of entrepreneurial orientation on SMEs performance?

1.5 Objective of the Study

The main objective of this study is to examine the relationship between entrepreneurial orientation and SMEs performance. Moreover, this study will examine the moderating effect of microfinance awareness perception and acceptance in Nigeria.

The specific objective of the Study

The specific objective of this study are as follows;

1. To examine the effect of entrepreneurial orientation on SMEs performance.
2. To evaluate the relationship between microfinance facilities awareness, perception and acceptance and SMEs Performance.
3. To examine the moderating effect of awareness, perception and acceptance of microfinance facilities on the relationship between entrepreneurial orientation and SMEs Performance

1.6 Significance of the study

This study is significant considering the inconclusiveness of the relationship between entrepreneurial orientation and the performance of SMEs, as it is a complex issue that various variables have been used to interact their relationship. This study will use the awareness, perception and acceptance of microfinance facilities as a moderator. Therefore, this study will not only add to the existing literature of entrepreneurship and performance of SMEs, but will also help the SMEs in taking strategic action and enabling the government to formulate a policy that enhances the performance of SMEs.

1.6.1 Extension of New Knowledge

There have been no known published literature on the study of moderating effect of awareness, acceptance and perception of microfinance facilities on entrepreneurial orientation and SMEs performance in Nigeria. This research will fill the gap by providing guidance for further research on awareness, perception and acceptance of microfinance facilities on SMEs performance.

1.6.2 Significance to the SME

This study is expected to contribute to the SMEs by highlighting the impact of entrepreneurial orientation (innovation, risk-taking and proactive) on their performance, moderated by awareness, perception and acceptance of microfinance facilities. The result of this study is also expected to enable the prospective and the current owners and managers of SMEs to abide by the policies and firm strategies.

1.6.3 Significance to the government

This research hopes to help the government in making policies and programmes on improving the performance of SMEs. It is hoped that at the end, it will increase the GDP by increasing total production, reducing unemployment and providing awareness training, campaign to make SMEs adopt microfinance facilities as their source of business capital. There are other factors which will increase their performance and will also guide the government to update, replace or revive the existing microfinance institution and educating the small and medium enterprises, which will ultimately increase the performance of the SMEs.
1.7 Scope and limitation of the study

The scope of this study will cover North East Nigeria and it is not possible to cover all-regions of the entire Nigeria, because of time framework and financial constraints, however, this study will only cover the northeast region of the country which include Adamawa, Bauchi, Borno, Gombe, and Taraba and Yobe state of Nigeria.

This study is based its basic area to investigate the entrepreneurial orientation in relation to the SMEs performance and the awareness, perception and acceptance of microfinance facilities as moderator. Data for the studies has been collected from the managers/owners of SMEs in Northeast.

Therefore, this study is only restricted to the Northeast part of Nigeria, due to financial and time constraint, the Northeast region is chosen due to poverty level and educational backward as reported in the National Bureaus of Statistics report (2011).

1.8 Organisation of Chapters

This section is to explain on the organisation of chapters for this study;

Chapter One (1) is an introduction to the studies which includes the background of the study focusing on entrepreneurial orientation and SMEs performance and moderating role of awareness, perception and acceptance microfinance facilities, the statement of the research problem, the research questions and objectives and importance of the research are highlighted.

Chapter Two (2) begins with some key explanation of the variables, review of literature on SMEs performance, entrepreneurial orientation, (innovation, risk taking and proactiveness), and microfinance facilities, the relevant theory on the firm’s performance, the research framework showing the relationship between the independent variable (innovation, risk taking and proactiveness), dependent variable (SMEs performance and moderators (awareness, perception and acceptance of microfinance facilities) and any gaps in the study has been discussed.

Chapter Three (3) discusses the research design, and the study using the quantitative method, data validity and reliability carried out. The data collection method is surveyed by using questionnaire, and analysis using descriptive statistic and regression using SPSS to answer the objective and hypothesis of the study. The row data were examine using exploratory data analysis (EDA) to check the deviation before the statistical analysis was carried out.
Chapter Four (4) presents and discusses the findings of the objectives proposed and the hypothesis, detail of the respondent profile, regression result discussion to examine the moderator significant impact on the independent and the dependent variables, and finally conclude on the overall hypothesis.

Chapter Five (5) this chapter discusses the summary of the research findings, conclusions, recommendation of next research, and limitations of the study. It overviews the moderating effect of awareness, perception and acceptance of microfinance facilities on entrepreneurial orientation and SMEs performance.
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