

Vision, Innovation, Pro-activeness, Risk-taking and SMEs Performance: A Proposed Hypothetical Relationship in Nigeria

LawanShamsu Abu Bakar

Faculty of Economics and Management Sciences, Universiti Sultan ZainalAbidin
Kuala Terengganu, Terengganu, Malaysia
Email: shamsulawan46@gmail.com

Fakhrul Anwar Zainol

Faculty of Economics and Management Sciences, Universiti Sultan ZainalAbidin
Kuala Terengganu, Terengganu, Malaysia
Email: fakhrulanwar@unisza.edu.my

To Link this Article: <http://dx.doi.org/10.6007/IJAREMS/v4-i2/1665> DOI:10.6007/IJAREMS/v4-i2/1665

Published Online: 09 January 2015

Abstract

The paper aimed to examine the relationship of vision, innovation, proactiveness and risk-taking on SMEs performance in Nigeria. The methodology followed in order to achieve this objective is the review of related literature. The paper has found that SMEs are very important sector in the development of any economy and vision innovation, proactiveness and risk-taking are the vital ingredients for successful and outperformed SMEs. Part of the findings of this paper, there may a positive and significant relationship between vision, innovation, proactiveness and SMEs performance in Nigeria. The study recommends that empirical research need to be conducted to examine the extent of the relationship between vision, innovation, proactiveness and risk-taking on SMEs performance in Nigeria.

Keywords: Vision, Innovation, Proactiveness, Risk-taking, SMEs Performance

Introduction

Small and medium-sized enterprises (SMEs) play significant roles in the world economy and contribute substantially to income, output and employment. According to Henderson, (2002) stated that SMEs connect the community to the larger global economy, and they are the vital link to the economic development of any nation (Thurik and Wennekers, 2004). Indeed, they serve as a source of innovation, technological growth, and creation of new job (Wiklund et al., 2009). In the Nigerian macroeconomic environment, SMEs have compelling growth potential and like other emerging economies are likely to constitute a significant portion of GDP in the near future, (Oyelaran-Oyeyinka, 2007). According to Nwankwo et al. (2012) SMEs sector provide, on average, 50% of Nigeria's employment, and 50% of its industrial output. Thus, SMEs are very important part of the Nigerian economy.

One of the most important issues in the area of research particularly in SMEs are the antecedents that lead to the effective performance of SMEs. Characteristics that connect leadership and entrepreneurship are some of the antecedents that influence organisational performance, the characteristics consist of innovation, vision, risk-taking, proactiveness, strategic initiative, problem solving, strategic planning and decision making (Cogliser and Birham, 2004; Fernald et al, 2005 and Saher, 2013).

These characteristics some are more inclined to entrepreneurship others are more related to leadership. Four of these characteristics can be used to examine their relationship with SMEs performance in Nigeria based on review of literature; they include vision, innovation, proactiveness and risk-taking. Previous studies have examined the relationship between each dimension of EO and SMEs performance for example Kraiser et al, (2013) stated that, there are theoretical reasons suggesting that three dimensions of EO (innovativeness, proactiveness, and risk-taking) may possess differential relationships with performance in smaller firms, meanwhile this study has not included vision. Thus, this paper will examine the relationship between vision, innovation, proactiveness, risk-taking and SMEs performance in Nigeria by reviewing some of the previous literature.

Problem statement

SMEs in Nigeria are the backbone for employment generation and poverty alleviation. Conversely, the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) in 2008 reported that, SMEs in Nigeria usually collapse before their fifth anniversary. In the same vein, Basil (2005) and Nwanko et-al. (2012) have identified some of the remote causes of poor performance of SMEs in Nigeria. They include insufficient capital, lack of focus, poor market research, concentration in some few markets for finished products, rare succession plan, inexperience, poor record system, lack of entrepreneurial spirit, etc. Some of these problems are entrepreneurial in nature while others are related to leadership. For example lack of entrepreneurial spirit and lack of focus. Due to the fact that SMEs performance have not performed credibly well in Nigeria, and the remote causes are either related to entrepreneurship or leadership. Therefore, this paper will examine the relationship between vision which is an element of leadership, and innovation, proactiveness and risk-taking which are elements of entrepreneurship on SMEs performance. The purpose is to examine how each of the elements related to SMEs performance and which one that need to seriously taking into account in term of influencing performance. Therefore, this research paper will respond to the questions such as is there any positive and significant relationship between vision, innovation, proactiveness, risk-taking and SMEs in performance in Nigeria.

Literature Review

SMEs serve as mechanism for the attainment of national economic objectives such as employment generation and poverty reduction at low investment cost; they contribute significantly to the development of entrepreneurial capabilities particularly enhancement of indigenous technology. Other benefits related to them include stimulation of economic activities such as supplies of various items and marketing them, enhancement of standard of living for employees of SMEs and their dependents as well as those who are directly or indirectly associated with them (Basil, 2005). Many researches agree that SMEs are the cornerstone for economic growth and social development. According to Wahab and Ijayi, (2006) SMEs have improved the living standard of the rural dwellers through job creation, utilization of local technology, and generation of revenue to both private individuals and

government. Similarly, SMEs with fewer than 300 workers accounted for 99.5% of the factory in Tokyo and employed 74% of the workforce there, Korea and Japan prospered as both countries manufactured and export goods and services with the aid of SMEs, in the United State of America, SMEs account for 87% of the countries workforce and the German's SMEs employ about 72.6% of its labour force (Kadiri 2012). Indeed, SMEs have the propensity to employ more labour intensive production process than larger enterprises. In Nigeria, SMEs have compelling growth potential and like other emerging economies are likely to constitute a significant portion of GDP in the near future (Oyelaran-Oyeyinka, 2007). Despite the fact that there is plethora of literature that studies the economic importance of SMES, this paper will deal on the significant relationship between vision, innovation, proactiveness, risk-taking and performance. This section will review relevant literature on the relationship between vision, innovation, proactiveness and risk-taking on performance.

SMEs Performance

According to Central Bank of Nigeria (CBN) defines SMEs in MSMEDF revised guidelines (2014) "Small and Medium Enterprises are entities which have assets base of Five million Naira and not more than five hundred million Naira with number of employees between 11 and 200". This definition does not include micro enterprises. National Council of Industries refers to SMEs as business enterprises whose total costs excluding land is not more than two hundred million naira (Basil, 2005). In these definitions, SMEs are based on the value of assets and number of employees. In research, the fundamental issue pertaining to SMEs is the Performance of SMEs businesses.

One of the difficult things to define is performance. Performance is a multidimensional phenomenon; it is about creating acceptable outcome and action (Morgan and Strong, 2003; Chittithaworn, et al., 2011). Controversy exists in describing and understanding the term business performance (Morgan and Strong, 2003). Performance seems to be conceptualised and measured in different ways (Venkatraman and Ramanujam, 1986 and Olabisi, 2012).

According to conventional approach to performance, performance can be assessed by emphasizing on profitability usually measured by return on investment (Reese and Cool, 1978), however, scholars have criticized profitability as basis for measuring performance (Morgan and Strong, 2003). Kaplan and Norton (1996), have gave a more generic view of business performance which consist of integrating accounting based issues and other performance indicants that are off the balance sheet to measure performance. Market based performance is what usually lead to financial performance (Murphy et al., 1996). Therefore, SMEs performance is not an exceptional to this contention this because the criteria for measuring business performance is the same criteria for measuring SMEs` performance. In this paper SMEs performance consists of financial and non-financial measures including the annual sales growth, annual profits growth, annual employee growth, customer satisfaction, , market share, and investment to the business as used by Morgan and Strong, (2003); Kantabutra, and Avery (2010);Kraiser et-al., (2013) Wejunge and Pushkumari,(2013) and Sandada, (2014). Thus, this aspect will examine the relationship between SMEs performance and the vision, innovation, proactiveness and risk-taking.

Vision and SMEs` performance

Vision is a strategic process within organisations (David, 2003), it indicates the state of the business in the future (Rossouw et al., 2003), and it signifies the guiding philosophy and what give clear direction to the organisation (Finkelstein et al., 2007; Kantabutra and Avery, 2010).

It is a business ideology that must be shared and desire everyone's commitment (Ungerer, et al., 2007). According to Yukl, (1998), stated that clear vision of what an organization could accomplish or become helps employees understand the purpose, objectives, and priorities in the organization, as such many studies have shown the relationship between vision and performance.

Amboise (2000) found that there is positive and significant association between vision and a combined measure of variation in sales and profits in the case of the traditional firms but no such relationship was found for the sub-group of firms belonging to the new economy. Having strategic vision does not seem to be conducive to increased sales and profits in the businesses of the new economy. However, the result shows a significant association between level of vision and the subjective measure of performance in a new economy. A study of the power of vision in apparel stores by Kantabutra and Avery (2010), found that vision characteristics and content have positive and direct effects on the customer, staff satisfaction, and business performance. Sandada (2014) one of the findings of his study suggest that the mission and vision statements, environmental scanning and the formality of strategic planning have a positive effect on the performance of SMEs. Therefore, the findings of these studies have shown positive and significant relationship between vision and SMEs performance. Thus, there is positive and significant relationship between vision and SMEs performance in Nigeria.

Innovation and SMEs Performance

Innovation is a complex phenomenon that involves the production, diffusion and translation of knowledge in new or modified products or services, or the development of new production or processing techniques (Bigliardi, 2013). It reflects a firm's tendency to engage in and support new ideas, novelty, experimentation, and creative processes that may result in new products, services, or technological processes (Lumpkin and Dess 1996). There are different dimensions of innovation (Lumpkin and Dess, 1996, Egbetokun, et-al. 2008). Innovation is an important component of a firm's strategy mainly because it constitutes one of the principal means through which it can seek new business opportunities (Lumpkin and Dess, 1996 and Bigliardi, 2013). Today more than ever, a firm's construction of sustainable competitive advantage crucially depends on its capacity to innovate (Marques and Ferreira, 2009). Innovation is considered by many researchers and managers to be critical for firms to compete efficiently in both domestic and global markets (Hitt, 2001). Indeed it facilitates the development of new organizational routines and the discovery of unique approaches to technologies, products, or processes and enables SMEs to adapt to changing market conditions through the introduction of new and refined products (McGrath, 2001; Ireland et al 2009).

Innovation has become a prime source for gaining a competitive edge in the market for all companies (Bigliardi, 2013). Various studies have examined the relationship between innovation and organisational performance. According to Bigliardi, (2013) found that the increase in the innovation level increased financial performance. Koellinger, (2008) found that innovative activity is not necessarily associated with higher profitability. While Egbetokun, et-al. (2008) found that incremental innovation is positively related to performance particularly on product quality. Wijetunge and Pushpakumari (2013) found that Among the dimensions of EO, innovativeness shows high influence on business performance.

Therefore based on the literature there is positive and significant relationship between innovation and SMEs performance in Nigeria.

Pro-activeness and SMEs Performance

The term proactiveness is defined in Webster's Ninth New Collegiate Dictionary (1991) as "acting in anticipation of future problems, needs, or changes." As such, proactiveness may be crucial to entrepreneurial orientation because it suggests a forward-looking perspective that is accompanied by innovative or new-venturing activity. It is active to influence and lead the future rather than waiting to be influenced by it; it involves exploiting opportunities and accept the responsibility of failure (Kuratko et al. 2007). It is being able to anticipate future problems, needs for change, and improvement (Okudan and Rzasa, 2006). Proactiveness was used to depict a firm that was the quickest to innovate and first to introduce new products or services (Miller 1983). The idea of acting in anticipation of future demand is an important component of entrepreneurship. Venkatraman, (1989) suggested that proactiveness refers to processes aimed at anticipating and responding on future needs by "seeking new opportunities which may or may not be related to the present line of operations, introduction of new products and brands ahead of competition, strategically eliminating operations which are in the mature or declining stages of life cycle". Thus, a proactive firm is a leader rather than a follower, because it has the will and foresight to seize new opportunities, even if it is not always the first to do so (Lumpkin and Dess 1996).

Smith and Cao (2008) argued that Proactive firms are in a better position to exploit existing opportunities by scanning their environment for useful information that they can utilize to satisfy underserved markets. Furthermore, for the firm to take a leadership position within the industry there need to have a proactive behaviour (Lumpkin and Dess 2001). Thus, Proactive firms are also able to create new opportunities for themselves by actively seeking to redefine their market; successful organisations in this vein benefits from increased levels of demand, higher levels of customer loyalty, and greater profitability (Covin and Miles 1999). Therefore based on the reviewed of the above literature we can depict positive and significant relationship between proactiveness and SMEs performance in Nigeria.

Risk-taking and Business performance

Risk taking is the willingness to absorb uncertainty and take the burden of responsibility for the future (Chen, et-al., 2007). It is one of the three essential elements of EO, and one that enhances company profitability (Miller, 1983; Miller and Le Bruton-Miller, 2011). It is the degree to which managers are willing to make large and risky resource commitments and act in an uncertain environment (Miller 1983). Cantillon (1734) argued that the principal factor that separated entrepreneurs from hired employees was the uncertainty and riskiness of self-employment. It was expected that firms that have better performance would also have a higher level of risk propensity (Leko-Simi and Horvat, 2006). According to risk-returned theory, asserts that the higher the risk, the higher the return. Return is one of the factors for measuring performance. It is imperative to understand at this point that every business endeavours must involved some degree of risk.

In the study conducted by Kraiser et-al, (2013) examined the relationship between each component of EO, innovation, proactiveness and risk-taking; they found that risk-taking and performance are negatively related. Wijetunge and Pushpakumari (2013) also in their research found that risk-taking are positively related to performance, but the level of the relationship is not significant. Similarly, Lim (2008) risk-taking has the lowest positive influence on performance. Muhammad et-al (2014) also confirmed that risk-taking has positive and significant relationship with financial performance. Thus, we can propose that

there is positive and significant relationship between risk-taking and performance in Nigerian SMEs.

From the review of the above literature, there is a relationship between vision, innovation, proactiveness and risk-taking on SMEs performance. therefore we can hypothetically propose that SMEs that run it activities based on setting a proper vision, being innovative, taking a proactive opportunities as well as able to take calculated risk can out performed SMEs without these characteristics.

Conclusion and Implication

In conclusion, this paper has conceptually examined the relationship between vision, innovation, proactiveness and risk-taking on SMEs performance using a review of related literature. It has shown that vision, innovation, proactiveness and risk-taking may have positive and significant relationship with performance. This means that for SMEs that set a clear vision, having the ability to innovate, with sense of proactive behaviours and ability to take calculated risk can do well in term of performance than those without those futures. Considering the poor performance of SMEs in Nigeria, Therefore, the paper proposed that there is a need for empirical research to investigate the extent to which how each of the independent variables can influence SMEs performance particularly in Nigeria by the future research.

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Biographical notes:

Lawan Shamsu Abubakar has hold a bachlor degree in Business Administration from Bayero University Kano, Nigeria. He is a currently a master student of University Sultan Zainul Abidin (UniSZA) and was a former Assistant General Manager SDS shopping Plaza and former staff of Keystone Bank. He is now a graduate assistant in the Northwest University, Kano and his research interests are entrepreneurial leadership and development of Small and Medium scale enterprises.

Dr. Fakhrol Anwar Zainol has a Degree in Accountancy (B. Acc) and Master of Business Administration (MBA) from Universiti Teknologi Mara (UiTM), Malaysia and completed his Doctorate in Business Administration (DBA) at the University of Newcastle, Australia. He also

holds Postgraduate Diploma in Entrepreneurship (PDE) from Judge Business School, University of Cambridge, UK His area of expertise includes entrepreneurship, business strategies, family business and strategic management. Previously he served as Director, Centre for Entrepreneurship, Universiti Sultan Zainal Abidin (UniSZA), Terengganu, Malaysia as well as Economics and Management Science faculty's member. He had years of experiences in development banking with Bank Pembangunan & Infrastruktur Malaysia and SME Bank Bhd before become an academician. He also a Certified Business Coach and part of Accredited MAUS Coaching Partner based in Sydney, Australia.