

Entrepreneurial Orientation and Sustainability of Small and Medium Enterprises in North Central Nigeria

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ABSTRACT

This empirical study was aimed at determining the effect of entrepreneurial orientation on small and medium enterprises (SMEs) sustainability in North Central Nigeria. Most SMEs in the North Central Nigeria has performed beyond expectations. Many of them have not been able to sustain their business due to lack of innovation in their business operations and this need to be addressed. A survey research design was adopted and the study population comprised of 350 selected SMEs operating in the North central region. Data which was gathered through primary source were presented and analyzed using descriptive statistics such as tables and percentages. The hypotheses were tested using multiple regression analysis and the results show that all the dimensions, pro-activeness, innovation and risk taking have positive significant effect on liquidity, profitability and diversification of SMEs ($p < 0.05$) for all the measures. The study concluded that entrepreneurial innovation has effect on SMEs sustainability. The study recommended amongst others that Small and Medium Enterprises should be consistent in being pro-active, innovative and risk taking in all business endeavours. This will enable them to gain liquidity, be profitable, diversify, gain sustainability and become strong market competitors.

Keywords: Entrepreneurial Orientation, Sustainability, Innovation, Risk Taking, Profitability, Diversification

INTRODUCTION

Small and Medium Enterprises (SMEs) have been considered as one of the engines of economic growth, sustainability and industrial development of a nation. Although, SMEs are individually small in size and in economic power; they collectively constitute an important part of GDP; as such they are commonly characterized as the backbone of all economies (Muller, Devnani, Julius, Gasliardi, & Marzorchi, 2016). As small and medium enterprises (SMEs), they play a critical role in the economic growth and development of the world's emerging, both developing and developed economies. The development of the SME sector is a way to help the government achieve its goal of enhancing entrepreneurship as a vehicle to accelerate industrialization, solving the challenges of unemployment and general economic growth.

Arena and Azzone (2012) posit that the major challenges encountered by SMEs are ensuring survival in their businesses. There is arguably high mortality rate of SMEs within the first three years of operation. Efforts directed towards enhancing their survival and eventual growth has been a concern to researchers, policy makers and governments. Many SMEs encounter problems that limit their survival. Ng and Kee (2013) argue that in order to survive and become successful in today's competitive and rapidly changing market

environments, SMEs need to continuously acquire and enhance their entrepreneurial orientation. The African Development Bank Group (2013) remarked that the Nigerian business environment is fraught with market collapse and this has led to underfunding of SME sector, which is key for employment and economic expansion and this highlights the need to provide financial assistance to small and medium sized companies through reputable local banks.

There is agreement among some scholars that entrepreneurial orientation leads to the success, survival and profitability of firms (Islam, Khan, Obaidullah & Alam (2011)).

Entrepreneurial orientation as an idea in the field of entrepreneurship is seen as a medium towards achieving the profitability, growth and sustainability of SMEs. There are three dimensions of entrepreneurial orientation namely, innovation, risk taking and pro-activeness. Updating the dimensions from entrepreneurial orientation to five, include autonomy, competitive aggressiveness, risk-taking, pro-activeness and capacity for innovation and advancement of the genuine plan contemplated by Miller & Adamu, (2015) are attributed to Covin & Slevin (1989). Several studies have revealed that organizations that exhibit a more entrepreneurial orientation function better. Therefore, this study aimed to examine the effect of entrepreneurial orientation variables on SMEs survival and sustainability.

A Statement of the problem

Attaining sustainability has been the major objective of any organization be it small, medium or large in the area of profit, people and the planet but this has not always been the case of many small and medium enterprises due to its volatile environment and the appropriateness of sustainable strategies to adopt for their survival. Nigeria as a country is characterized by an unstable and turbulent business environment which in turn influences the success of non- subsidiary independent firms (small and medium enterprises) and as well marred its main objective of ensuring the socio-economic growth of the country. Eneh (2010) opines that three (3) out of any four (4) micro, small and medium scale enterprises fail to exist, while nine (9) out of ten (10) willing businessmen are scared to embark on establishing business as a result of impending treat of the unstable environment and other factors. The survival rate of a growing business in Nigeria is pegged at 20% borne out of a lack of appropriate strategies for its sustainability. The slow growth of SMEs in the North central cannot be ascribed to the aforementioned challenges, but mainly to limited entrepreneurial orientation. The problem of SMEs in the North Central is their inability to engage in entrepreneurial orientation as well as identifying sustainable innovation programs that hinder their survival in their immediate environment. In line with the above, entrepreneurial orientation is therefore an important idea to be adopted in the concept of entrepreneurship and sustainability, which has been identified in earlier studies as affecting SMEs operations. Most of the studies is on the effect of entrepreneurial orientation on SME performance and have also focused on developed countries. While a number of studies have examined the entrepreneurial orientation and performance relationship in Africa, there is a lack of research that has examined the relationship of entrepreneurial orientation and sustainability in the context of small and medium enterprises in Nigeria. This study expands the literature on the entrepreneurial orientation and sustainability relationship of selected small and medium enterprises (SMEs) in North Central Nigeria. Hence the objectives were to; determine the relationship between pro-activeness and liquidity, innovation and profitability, risk taking and diversification of SMEs) in North Central Nigeria.

REVIEW OF RELATED LITERATURE

A. Entrepreneurial Orientation

Entrepreneurial orientation is a critical factor to the success of organizations. Entrepreneurial orientation is envisioned as a process and decision-making activity used by entrepreneurs that leads to new entrance and aid for business ventures (Kropp, Lindsay, & Shoham, 2006).

Entrepreneurial orientation has been described as consisting of three dimensions: innovativeness, risk taking, and pro-activeness. Miller (1984) argues that these three components of entrepreneurship constitute a basic one-dimensional strategic orientation. Innovativeness requires looking for creative or unusual solutions to

problems and needs. This area includes product development, establishing of new markets and innovative systems and technology for processing operations. The risk-taking dimension refers to the readiness of the management to invest large amounts of resources and opportunities despite the uncertainty. Previous entrepreneurial orientation of firms involves pro-activeness in the search for new business opportunities, risk-taking, and innovativeness (Kropp, Lindsay, & Shoham, 2006).

B. Dimensions of Entrepreneurial Orientation

1. Innovativeness

Innovation is seen as the development and use of new concepts or practices in organizations to demonstrate in a product, service, technology, or design process. The organization supports a new strategy based on the knowledge of market players (Mahmood & Rufin, 2005). Innovativeness is the objective to aid new plan and to support change (Damanpour, & Wischnevsky, 2006). It encompasses the creation and adoption of technologies and internal activities.

2. Pro-activeness is the prospect that requires the opportunity of an entrepreneur. It is a state of anticipation that reflects and makes strategic changes in the market as well as creating new processes and products (Lisboa, Skarmeas & Lages 2011). Pro-activeness is seen as an entrepreneurial preparedness to control rivalries via dynamic movements, such as introducing a new product or service in front of rivalries and taking action in expectation of the future to institute change and improve the environment. Looking for customers who are expecting something new, regular product updates and a better understanding of what they want, as well as, improved products is becoming the focal point of competition for numerous organizations. Pro-activeness is related to striving for the first leading advantages by investing efforts in environmental scanning in order to identify new trends and keep up to date with the competition (Perez-Luno, Wiklund & Cabrere 2011). Evidence suggests that pro-activity is related to the numerous of innovations generated; hence, the greater the pro- activity of the firm, the greater the inclination to favour innovation generation. Pro-active organizations try to stay ahead of others with the aid of new technology, marketing new product or service. Pro-active firms grab opportunities and concentrate on new product or service creation, utilizing trends to suit future needs of customers and predict changes in demand or emerging problems that lead to new business opportunities (Dess & Lumpkin 2005). The initial mobility benefit is achieved when the operating firms first enters a new market and establishes identity, implements a design process or uses new workflow technologies in the firm thus having a leverage over their rivalries. In general, pro- activeness is the desire to predict and respond to the needs of the market and future opportunities.

3. Risk Taking

Risk taking is concern with the tendency and readiness to devote reasonable resources to taking advantage of chances or engaging in business strategies where the result may not be fully known. Pérez-Luño, et al. (2011) opined that risk taking refer to the risk factor reflected in decision making assets as well as alternative of products and markets. The practice of threats undermines export barriers and paves the way for the pursuit of new opportunities in foreign markets. Rauch et al (2009) found that the risk taking has a performance-related effect, even if it is less than other parts of the entrepreneurial orientation. The relationship between risk taking and performance is not too strong than the one between pro-activeness and innovativeness. Risk taking is regarded as an independent variable and is connected to other part of entrepreneurial orientation (Naldi, Nordqvist, Sjöberg, & Wiklund, 2007). Pérez-Luño et al. (2011) stated that risk-taking is positively related to the number of innovations created by the firm and that the greater the firm's risk-taking capacity, the greater the tendency to prefer creating innovation. Risk-taking indicates a firm's loyalty to huge cost projects and taking bold and rapid actions to low losses. It also requires investing heavily in new technologies as well as selling new products or services in new markets (Ibrahim & Mahmood, 2016). Risk taking orientation means that companies should take risks to achieve higher financial returns by incurring higher cost, investing more amounts of corporate resources, introducing new products into new markets, and investing in unexplored technologies and opportunities. A risk taking firm would be willing to devote huge resources to opportunities that are likely of costly failure (Ibrahim & Mahmood, 2016).

C. Small and Medium Enterprises Sustainability

According to Akindele, et.al. (2012) business survival and sustainability is the ability of a firm to continuously be in operation despite various challenges i.e. the managerial process of directing the affairs of a firm regularly on a going concern basis and meets the needs of all stakeholders. In order to survive, firms always keep a close tab on the various activities that determine their continuity. Hurst (2010) concurs but hastens to add that it is the ability to resist business collapse and evolve as a worthy, strong and stable success. Of course, some surviving businesses do not grow by any significant margin as they start small and stay small throughout their entire lifecycle but the fact remains they are surviving (Hurst & Pugsley, 2011). According to the research-based view, one of the most important intangible resources for predicting business survival is entrepreneurial experience which in this paper is analyzed in the context of entrepreneurial orientation. Survival was measured in terms of the length/duration of time the enterprise has continuously been in business without interruptions.

For an enterprise to be sustained longer, its liquidity, profitability and diversification strategy have to remain strong as brought about by entrepreneurial orientation (Sanchez, 2012). In entrepreneurship, liquidity constraints force start-ups to join a competitive market with limited capacity (weak and small) and that this initial cash hiccups would impact negatively on the firm's survival and sustainable probabilities. As noted by Barbosa (2016) such liquidity constraints may block SMEs from creating buffers against random shocks, thereby affecting investment projections negatively and having an impact on such firms' sustainability. Basic economic theory stipulates that firms can only stay in markets when they are profitable as opposed to when they are making losses (Barbosa, 2016). Kumlachew (2012) lends support to this basic economic principle. According to him, high firm profitability can be construed to be a sign of efficiency and market power. Should higher profitability be as a result of higher efficiency which then means higher productivity then survival and sustainability prospects is enhanced but if such high profitability emanates from market power, longer lifetimes are envisaged from SMEs that are more profitable. The asset base of a firm is widened by profits attributable to innovation and advertising which in turn ease such firm's sustainability. Profitability is therefore advocated as a precondition to longevity (Barbosa, 2016).

Diversification is also said to impact positively SMEs survival and sustainability probability because in such circumstances variation of earnings is vehemently reduced (Sohl, 2012). However, for SMEs the argument is in favor of a posited negative relationship based on the fact that small firms' economic viability relies so much on finding niche markets to service through specialization and concentration of efforts but being extremely careful not to disperse scarce resources out of the primary line of business to other avenues that are remotely understood by the enterprise (Barbosa, 2016). Such diversification can include corporate diversification where interrelated activity complements the main activity, market diversification by invading new markets, and product diversification by coming up with new products.

D. Entrepreneurial Orientation and Sustainability of SMEs

1. Pro-activeness and Liquidity

Pro-activeness is the opportunity and forward-looking dimensions which includes presentation of new products/services and acting towards future demand. This statement includes a company's willingness to venture the export market. Pro-activeness can also be referred to as a wide variation of activities to include recognizing opportunities and market trends, evaluating the strengths and weaknesses of opportunities, and setting up teams that are able to take advantage of them. Wisner, (2004), posits that the indicators of pro-activeness of SMEs includes, building greater trust in customers, identifying and participating in new products through keeping the firm liquid, which if implemented correctly will lead to sustainability of the organization.

2. Innovativeness and Profitability

Innovation is a critical factor in ensuring the benefits of competition through long-term planning and commitment. Joseph Schumpeter highlighted the importance of innovation as a key factor in his economic growth and development in his Theory of Economic Development (1934). According to Casals (2011), the globalization of markets and international competition is forcing more and more small and medium-sized

companies to look for flexible, transformative and imaginative ways to survive. This provides the foundation for the SME to create something new to survive. Moreover, innovation is a key factor in modern society based on knowledge for SME operations, although there is little evidence of this in terms of emerging economies. But SMEs need to be constantly evolving to reduce production costs, delivery costs, as well as service manufacturing expertise, product delivery relationships among other business processes. SMEs that have adjusted flexible production process and competitive costs and prices have been able to gain greater market share (Casals, 2011). This highlights the essence of innovation in promoting long-term loyalty and value to customers.

3. Risk-taking and Diversification

Risk-taking centered on the readiness of entrepreneurs to take part in premeditated business risk which in the end leads to high business diversification. Lumpkin & Dess (2006) identify venturing into the unknown as a definition for risk taking which leads to great firm performance. This is because it provides SMEs the foundation to grow and integrate into new products without having to worry about its consequences. Studies have found that SMEs that take risks perform better in terms of profitability than those who do not. Such firms are also expected to have better performance and a higher level of risk propensity. Leko-Simi & Horvat (2006) viewed risk-taking as the desire to own or avoid risks and is considered as a human trait. Risk-taking is vital to aid both innovativeness and pro-activeness in SMEs and fosters organizational creativity (Gilson, & Shalley, 2004). Under unforeseen circumstances, risk taking is positively associated with development of new products. It is also evident that risk-taking in SME encourages and reveals behaviours that lead to process enhancements, new products or services, and innovative practices leading to high performing and sustainable SMEs. Endi, Suracham, Armanu and Djumilah (2013) found that entrepreneurial orientations propel business performance, the higher the orientations that SME owners portray the higher the likelihood of good business sustainability. Most of the business failures are due to SME owner-manager's lack of orientations, inadequacy and inexperience in managing their business and taking quick remedial action in crisis situations. Entrepreneurial orientations portfolio has a positive impact on the organizational sustainability as such are positively related to entrepreneurial survival. Entrepreneurial orientations are a predictor of SMEs business survival and success (Ahmad, Ramayah, Wilson & Kummerow, 2010).

Conceptual Framework

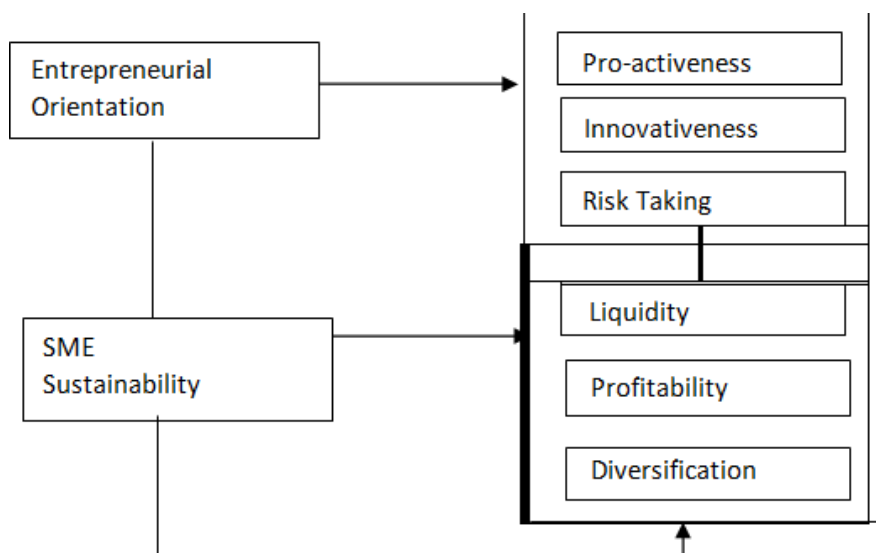


Fig.1. Conceptualization of Entrepreneurial Orientation and Sustainability Source: Researcher,(2023).

A. Empirical Review

Numerous studies have examined the effect of entrepreneurial orientation on performance of SMEs with mixed results: Ibrahim & Mahmood (2016) examined the impact of entrepreneurial orientation and competitive advantage on SMEs performance in Nigeria using primary data. Additionally, the research

examined whether competitive advantage mediates the relationship between entrepreneurial orientation and performance of SMEs. The research revealed that there is a positive and significant relationship between EO and SMEs performance. In the same vein, the finding showed a positive and significant relationship between competitive advantage and SMEs performance. Furthermore, the research affirmed that competitive advantage mediates the relationship between entrepreneurial orientation and the sustainability of SMEs in Nigeria.

Arisi-Nwugballa, Elom & Onyeizugbe (2016) examined the impact of the dimensions of entrepreneurial orientation on the performance of Micro, Small and Medium Enterprises (MSMEs) in Ebonyi State. Data were sourced using questionnaire and analyzed using descriptive statistics. The research found that the three dimensions of entrepreneurial orientation were significant to one measure of the performance of MSMEs. Furthermore, the research affirmed that competitive aggressiveness is significantly related to both customer and product performance hence leads to sustainability. Similarly, innovativeness and pro-activeness had a significant relationship with customer performance. Risk-taking and autonomy were not significantly associated with any of the performance measures, indicating that they are not relevant to the performance of MSMEs.

Kumarpeli & Semasinghe (2015) investigated the relationship between EO and SMEs growth and sustainability in Sri Lanka using a descriptive research design and Analysis of Variance (ANOVA) methodologies. The study examined the relationship between the three dimensions of entrepreneurial orientation - innovativeness, risk-taking, and pro-activeness on the growth and sustainability of SMEs. Data collected were analyzed using chi-square. The research revealed that entrepreneurial orientation has an effect on SMEs growth and sustainability. Also, the findings showed that innovativeness and risk-taking have a positive effect on SMEs sustainability. Nevertheless, the findings showed that pro-activeness has no significant effect on SMEs growth and sustainability.

Baker, Mahmood & Ismail (2015) examined the relationship between entrepreneurial orientation, strategic improvisation and performance of SMEs in Malaysia. Data were collected through mail questionnaires and analyzed using descriptive statistics. The stated hypotheses were tested using regression analysis and the results indicated that there is a significant relationship between entrepreneurial orientation and the performance of SMEs. Similarly, Amin (2015) examined the effect of entrepreneurial orientation and learning orientation on SMEs performance in Malaysia. The findings depict that entrepreneurial orientation dimensions (innovativeness, pro-activeness, and risk-taking) and learning orientation significantly related to performance of SMEs.

Kraus, Rigtering, Hughes & Hosman (2012) adopted a survey research design to investigate the effect of EO on SMEs sustainability in Netherland during the global economic and financial crisis. It was evident from the finding that during the economic and financial crisis, proactive firm's behaviour contributed positively to SMEs sustainability. The findings also indicated that innovative SMEs performed better in turbulent environments. The study concluded that innovative SMEs should reduce their risk levels and take action to avoid uncertain projects.

METHODOLOGY

The research design used for this study is descriptive survey design. This is because this study seeks to elicit data for analysis through the use of a questionnaire. The population of the study consists of 350 SMEs from Benue State, Kogi State, Nasarawa State, Kwara State, and Federal Capital Territory formed the population of the study. Niger and Plateau State were left out for security reasons. Complete enumeration was adopted and so there was no need for sampling as all the selected 350 SMEs were used as sample size for the study. A five-point Likert structured questionnaire was used in collecting data from respondents. The arrangement of the codes are as follows: Strongly Agree (5), Agree (4), Undecided (3), Disagree (2) and Strongly Disagree (1). Face and content validity were used to validate the research instrument. Reliability analysis run with Cronbach Alpha indicates high internal consistency (see table 1 below). The alpha coefficients showed that pro-activeness, innovativeness, risk taking, liquidity, profitability, and diversification scored 0.911, 0.903, 0.923, 0.933, 0.952, and 0.945, respectively

STATISTICAL ANALYSIS AND TEST RESULTS

A. Demographic Analysis

The research showed that 5 (1.4%) of the SMEs had existed in less than one year. 117 (33.4%), 72 (20.5%), 81 (23.1%), 75 (21.4%) of the SMEs had been in different lines of business for 1-4 years, 5-8 years, 9-12 years, and 13 years and above, respectively. In addition, SMEs who engage in whole sale/retail trade outnumbered the manufacturing firms. For example, 84 (24%) of the SMEs engaged in manufacturing whereas 266 (76) of them engage in various degrees of whole sale/retail trade. The result of the demographic analysis showed that the target SMEs had the capacity to participate in the survey. The three hypotheses were tested using simple linear regression tool.

B. Hypothesis One

Ho1: Pro-activeness does not significantly influence liquidity of SMEs in North Central Nigeria.

Table II: The Extent to which Pro-activeness influence Liquidity of SMEs

Variable	Beta	t value	R Square	F value	Sig.
(Constant)		-4.442			0
Pro-activeness	0.921	101.224	0.848	1224.01	0

Dependent Variable: Liquidity

The result showed a positive, significant relationship between pro-activeness and liquidity of SMEs in North Central, Nigeria (Beta = 0.92, $t = 101.22$, $r^2 = .948$, $F = 1224.01$, $p < .05$). Thus, the null hypothesis was rejected. The result showed that 85% change in the liquidity of SMEs was associated with change in their pro-activeness. This shows that pro-activeness of the SME exerts high level of influence on liquidity of SMEs in North central Nigeria. The result implies that pro-activeness was an important predictor of sustainability of SMEs. Changes in pro-active tendencies of SMEs tend to influence changes in liquidity which in turn enhances sustainability of SMEs. This means that the more pro-active a firm is, the higher its sustainability and vice.

C. Hypothesis Two:

Ho2: Innovativeness does not significantly influence profitability of SMEs in Northcentral.

Table III: The Extent to which Innovativeness influence Profitability of SMEs

Variable	Beta	t value	R Square	F value	Sig
(Constant)		8.979			0
Innovativeness	0.532	11.998	0.283	143.945	

Dependent Variable: Profitability

The research ascertained that innovativeness significantly relate with profitability of SMEs in North central, Nigeria (Beta = 0.53, $t = 11.998$, $r^2 = .283$, $F = 143.954$, $p < .05$). Hence, the null hypothesis was rejected. The result also showed that 28% change in a firm's profitability was associated with change in the firm's innovativeness. It implies that innovativeness of an SME

Exerts low level of influence on the firm's innovativeness. The Research indicated that innovativeness of an SME slightly predicts the profitability of the firm. In other word, changes in a firm's innovativeness had a little influence on the firm's profitability. Nevertheless, innovative SME tend to experience greater profitability than non-innovative ones.

Hypothesis Three:

Ho3: There is no significant relationship between risk taking and diversification of SMEs in North central Nigeria.

Table IV: The Extent to which Risk Taking influence Diversification of SMEs

Variable	Beta	t value	R Square	F value	Sig
(Constant)		1.207			0.228
Risk taking	0.98	94.388	0.961	6709.041	0

Dependent Variable: Diversification

The result showed that risk taking significantly influenced diversification of SMEs in North central, Nigeria (Beta = 0.98, t = 94.388, r2= .961, F = 6709.018, p < .05). Thus, the null hypothesis was rejected. It was also established that 96% change in diversification of SMEs in North central, Nigeria was related to change in the firm’s risk taking. Thus, risk taking exerts high degree of influence on diversification of SMEs. The research has established that risk taking was a key predictor of diversification of SMEs. SMEs which take risk tend to diversify more than those who avoid risks.

DISCUSSION OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

The first research objective was to ascertain the extent to which pro-activeness influence liquidity of SMEs in North central Nigeria. The result determined a positive, significant relationship between pro-activeness and liquidity of SMEs in North central, Nigeria. This result relates to the outcome of Arisi-Nwugballa, et al. (2016) in the study of MSMEs in Ebonyi State, who found that pro-activeness had a significant correlation with customer performance.

The second research objective was to determine the extent to which innovativeness influence profitability of SMEs in North central, Nigeria. The research ascertained that innovativeness significantly related with profitability of SMEs in North central, Nigeria. This finding was supported by Arisi-Nwugballa et al. (2016). Kumarpeli & Semasinghe (2015), Amin (2015), and Kraus, Rigtering, et al (2012). Amin (2015) revealed that innovativeness had a significant relationship with the performance and sustainability of SMEs. Kraus et al. (2012) established that innovative SMEs performed better in turbulent environments. Thus, innovativeness is a key predictor of business profitability and sustainability.

The third research objective was to examine the extent of relationship between risk taking and diversification of SMEs in North central, Nigeria. The result showed a significant, statistical relationship between risk taking and diversification of SMEs in North central, Nigeria. The result is consistent those of Kumarpeli & Semasinghe (2015) examined the relationship between EO and growth of SMEs in Sri Lanka. The results indicated that risk-taking had a positive impact on the growth of SMEs. The result contradicted with that of Arisi-Nwugballa et al. (2016). In a study of Micro, Small and Medium Enterprises (MSMEs) in Ebonyi, Arisi-Nwugballa et al. (2016) ascertained that risk-taking had no significant correlation with the performance of MSMEs. These findings show that SMEs in developing countries such as Nigeria can achieve sustainability by being proactive, innovative and taking calculated risk. In line with the findings and conclusion, the study recommends that:

1. Small and medium enterprises should be consistent in being pro-active in all business endeavours. This will enable them to gain enough liquidity, take first mover advantage and become strong market competitors through sustainability.
2. SMEs should be committed to process and radical innovation in their dealings so as to increase their profit and expand their customer base.
3. SMEs should take calculated risks in order that they will grab huge market potentials through

diversification.

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