RELATIONSHIP BETWEEN ENTREPRENEURIAL ORIENTATION AND PROFITABILITY OF SMALL AND MEDIUM-SCALE ENTERPRISES IN DELTA STATE

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Abstract
The purpose of the study was to ascertain the relationship between entrepreneurial orientation and profitability of Small and Medium Scale Enterprises in Delta State. Three research questions were raised for the study, while three hypotheses were tested at the 0.05 level of significance. A correlational research design was used for the study. The population of the study consisted of all 3,976 registered owners of Small and Medium Enterprises (SMEs) in Delta State. The sample of the study consisted of 794 registered owners of Small and Medium Enterprises (SMEs) drawn through a proportionate sampling technique. Face-validated "Entrepreneurial Orientation Questionnaire" (EOQ) and Profitability of SMEs Questionnaire (PSMESQ) were used to collect data for the study. The reliability of EOQ and PSMESQ was established using Cronbach's alpha statistics to obtain coefficients of 0.71 and 0.79 for EOQ and PSMESQ. The data collected were analyzed using Pearson Product Moment Correlation. It was found that: a high positive and significant relationship existed between innovativeness and profitability of Small and Medium Scale Enterprises in Delta State; a high positive and significant relationship existed between risk-taking and profitability of SMEs; and a high positive and significant relationship existed between proactiveness and profitability of SMEs. It was recommended, among others, that Entrepreneurs should endeavor to continually take advantage of their innovativeness so as to enhance profitability. They can do this by creating a supportive culture, empowering employees, and identifying market opportunities.

Key Words: Entrepreneurial Orientation, Innovativeness, Proactiveness, Profitability, Risk-Taking.

Introduction

Profitability is the degree to which small and medium enterprises make gain. Profitability is a metric that indicates how successfully a business can create profits through operational procedures that have been developed to ensure the business's future viability (Manoppo and Arie, 2016). That is the capacity of an SME to make profit and remain sustainable. Adudu, Asenge and Torough (2020) asserted that the profitability of a business is a vital financial indicator to reflect the efficiency of a business and the entrepreneur's ability to increase sales. Thus, an entrepreneur's ability to increase sales depends on their entrepreneurial orientation.

Entrepreneurial orientation is crucial among entrepreneurs in crafting strategies with a view to doing something novel and exploiting opportunities ahead of their competitors. Entrepreneurial orientation is an embodiment of various kinds of firm related behaviours and acts targeted at the introduction of new processes, new production techniques, manufacturing of new product lines as well as the exploration of newly discovered market opportunities (Luu and Ngo, 2019; Basco, Hernández-Perlines and Rodríguez-García, 2020). It highlights SME's strategy, management ideologies and entrepreneurial behaviours. It shows the processes through which SMEs gain entry into a novel market (Stambaugh, Martinez, Lumpkin, and Kataria, 2017). Suffice it to say that SMEs with a high entrepreneurial orientation tend to be more innovative, proactive, and involved in risk-taking, which gives them a competitive edge in the market (Aremu and Adeyemi, 2020). In other words, innovativeness, risk-taking and proactiveness are the dimensions of entrepreneurship orientation.

Innovativeness is a key component of entrepreneurship orientation which concentrates on the introduction of a new product and processes with a view to having a competitive edge in a new market. Similarly, Basco *et al*. (2020) noted that innovativeness is a vital component of entrepreneurship orientation (EO), which focuses on the release of new products, processes, and technological advancement via experimentation and creativity with intentions to commercialize those innovations in new market entry. It connotes the readiness of an SME to discover and use new ideas or approaches to improve products and services for market consumption. Innovativeness consists of various categories which are product, service, process, and administrative innovation (Chen, Wang, Huang and Shen, 2016). Donkor *et al*. (2018) that firms with more innovative capabilities increase their market share and sales and receive more product success, financial returns, and higher financial performance than firms with lower innovative abilities.

Apparently, innovativeness is a precursor to profit-making. This position is further corroborated with that of Usman (2016) that innovation further positively impacts firms' value-creating activities, profitability, return on assets and return on investments that signal firms' financial power. In other words, the place of innovativeness in enhancing the financial fortunes of a firm cannot be overstressed. Similarly, Isichei, Agbaeze and Odiba (2020) observed that through innovation, firms can capitalize on new opportunities, meet consumer needs with fresh products and services, and secure a first mover position in the industry. Shashi, Cerchione and Singh (2019) noted that innovativeness serves as a critical factor for both financial and non-financial success of SMEs. Innovativeness could come with risk-taking.

The risk-taking dimension of entrepreneurship orientation (EO) focuses on actions taken by entrepreneurs with uncertain outcomes such as going into a new market or borrowing heavily

to finance SME. Risk-taking is the readiness to commit resources to venture projects with uncertain outcomes (Ibrahim and Abu, 2020). Interestingly, firms that are not given to entrepreneurship orientation are less likely to take risks than those that are given to it. Risk-taking firms exhibit opportunity-seeking behaviours by regularly making changes in their present strategies, while expecting high profits (Putnins and Sauka, 2019).

Risk-taking SMEs exhibit opportunity seeking behaviours by frequently making changes in their current strategies, while anticipating higher profits (Putnins and Sauka, 2019). Firm risk-taking behaviours largely reflect their willingness to deviate from well-known successful strategies to experimenting new choices with potential higher profits and possibly providing for unforeseen losses of venturing into the unknown. However, Putnins and Sauka (2019) observed that risk-taking firms are expected to make timely and right decisions to achieve the expected high positive returns they anticipate for. Hoskisson, Hitt, Wan, and Yiu (2017) found that high-risk SMEs might likely commit more financial resources to implement risky and strategic project choices such as introducing new innovative products, processes, and technologies, and exploring new markets with a target for better profit performance. Similarly, Nimfa, Shaharudin, Latiff and Kembangan (2021) posited that risk-taking behaviors (proactiveness) are key indicators, which distinguish SMEs who will outlive five years of their existence resulting in their sustainability and profitability in the long run. It is expected that of a risk-taking firm to be proactive.

Proactiveness refers to the tendency of an entrepreneur to take actions or explore opportunities ahead of their competitors with a view to having a competitive edge. According to Adibe, Akam and Onuorah (2023), proactiveness refers to the ability to take the initiative whenever the situation demands. It aids the entrepreneur to rightly predict future products and services that will meet customer demands while making efforts in channeling them to the right markets. Proactiveness is the tendency to expect and act on future needs rather than reacting to events after they have unfolded (Adudu, Belagu, and Adebanjo, 2021). Thus, proactiveness as an aspect of EO is of paramount importance to the entrepreneur and their performance.

Proactiveness is an enabler of profitability of SMEs. Anwar and Shah (2021) found that proactiveness has been shown to have a significant influence on SMEs, enabling them to gain a strategic advantage by anticipating customer demands, implementing innovative strategies, and setting higher prices. Nuong (2022) found that there was a significant relationship between proactiveness and firm performance. Additionally, Innocent, Paul, and Amaka (2018) found significant positive effect of proactiveness on SMEs growth. In view of the foregoing, it is research-worthy to ascertain the direction of the relationship between entrepreneurial orientation and profitability of Small and Medium Scale Enterprises in Delta State.

Research Questions

The following research questions were formulated to guide the study:

1. What is the relationship between innovativeness and profitability of Small and Medium Scale Enterprises in Delta State?
2. What is the relationship between risk-taking and profitability of Small and Medium Scale Enterprises in Delta State?
3. What is the relationship between proactiveness and profitability of Small and Medium Scale Enterprises in Delta State?

Hypotheses

The following null hypotheses were tested at 0.05 level of significance:

1. There is no positive relationship between innovativeness and profitability of Small and Medium Scale Enterprises in Delta State.
2. There is no positive relationship between risk-taking and profitability of Small and Medium Scale Enterprises in Delta State.
3. There is no positive relationship between proactiveness and profitability of Small and Medium Scale Enterprises in Delta State.

Methods

The study adopted correlational research design. According to Nworgu (2015), correlational research design focuses on the existing relationship between two or more variables. *Procedure*. The population of this study comprised all the 3, 976 registered owners of Small and Medium Enterprises (SMEs) in Delta State. The sample for the study consisted of 794 registered owners of Small and Medium Enterprises (SMEs) in Delta State obtained through proportionate sampling techniques. Data collection was aided with the use of Entrepreneurial Orientation Questionnaire (EOQ)" and ''Profitability of SMEs Questionnaire (PSMESQ). EOQ was adapted from Entrepreneurial orientation and performance of SMEs Questionnaire by Kivuitu (2021). The instruction on the EOQ was modified alongside the items to align with the purpose of the current study. EOQ was divided into three clusters – one, two and three. Cluster one sought information on the innovativeness of SMEs. Cluster two sought information on the risk-taking of SMEs while cluster three sought information on proactiveness of SMEs. Each of the clusters has seven items. EOQ was constructed in a way that the respondents responded in the mode of four-point rating scale of: Strongly Agree (SA=4), Agree (A=3), Disagree (D=2), and Strongly Disagree (SD=1). PSMESQ was developed by researchers from literature. PSMESQ sought information on the profitability of SMEs and has a total of six items. PSMESQ was constructed in a way that the respondents will respond in the mode of four-point rating scale of: Strongly Agree (SA=4), Agree (A=3), Disagree (D=2), and Strongly Disagree (SD=1). EOQ and PSMESQ were validated by three experts in Faculty of Technology and Vocational Education, Nnamdi Azikiwe University, Awka. The reliability of EOQ and PSMESQ was ascertained using Cronbach alpha method. The internal consistency of the items in EOQ and PSMESQ was determined using Cronbach statistics. The alpha coefficients obtained were 0.71 and 0.79 respectively for EOQ and PSMESQ. This depicts high level of reliability for the EOQ and PSMESQ as they are consistent with the suggestions of Shrestha (2021) that the adequate threshold value for Cronbach alpha should be >0.70. The researcher with three research assistants who were co-postgraduate students administered the EOQ and PSMESQ to the respondents during their meeting days. The researcher later collected the completed copies back through the research assistants. Out of 794 copies administered, 625 copies were retrieved; representing 81.23% recovery.

Data arising from research questions and their hypotheses were analyzed using Pearson Product Moment Correlation Coefficient. In taking decisions in research questions, the suggestions of Nwana (as cited in Nworgu, 2015) was used. It is thus stated: $\pm$0.00 – 0.19 = Very low relationship; $\pm$0.20 – 0.39 = Low relationship; $\pm$0.40 – 0.59 = Moderate relationship; $\pm$0.60 – 0.79 = High relationship and $\pm$0.80 – 0.10 = Very high relationship. In taking decisions regarding the hypotheses, a null hypothesis was rejected if the probability value (p-value) is less than or equal to significant value of 0.05; if otherwise (p>0.05), the null hypothesis was not rejected.

Results

Table 1: Test of Significance of Pearson Correlation between Innovativeness and Profitability of Small and Medium Scale Enterprises in Delta State

Source of Variation	n	r	p-value	Remark
Innovativeness Profitability	645	0.701	0.00	Sig

Analysis in Table 1 shows that there is a positive and significant relationship between innovativeness and profitability of Small and Medium Scale Enterprises in Delta State. The calculated r (0.701) has *p*-value <0.05. The null hypothesis one is therefore rejected.

Table 2: Test of Significance of Pearson Correlation between Risk-Taking and Profitability of Small and Medium Scale Enterprises in Delta State

Source of Variation	n	r	p-value	Remark
Risk-Taking Profitability	645	0.627	0.00	Sig

Analysis in Table 2 shows that there is a positive and significant relationship between risk-taking and profitability of Small and Medium Scale Enterprises in Delta State. The calculated r (0.627) has *p*-value <0.05. The null hypothesis two is therefore rejected.

Table 3: Test of Significance of Pearson Correlation between Proactiveness and Profitability of Small and Medium Scale Enterprises in Delta State

Source of Variation	n	r	p-value	Remark
Proactiveness Profitability	645	0.678	0.00	Sig

Analysis in Table 3 shows that there is a positive and significant relationship between proactiveness and profitability of Small and Medium Scale Enterprises in Delta State. The calculated r (0.678) has *p*-value <0.05. The null hypothesis three is therefore rejected.

Discussion

Relationship between Innovativeness and Profitability of Small and Medium Scale Enterprises in Delta State

The finding of the study revealed that a high positive and significant relationship existed between innovativeness and profitability of Small and Medium Scale Enterprises in Delta State. This means that the more innovative an entrepreneur is, the more profitable the enterprise. Thus, innovativeness puts the entrepreneur in good stead to take advantage of opportunities to expand their enterprise, and the logical consequence will be profitability. The findings of the current study are consistent with those of Donkor *et al*. (2018) that firms with more innovative capabilities increase their market share and sales and receive more product success, financial returns, and higher financial performance than firms with lower innovative abilities. Apparently, innovativeness is a precursor to profit-making. This position is further corroborated with that of Usman (2016) that innovation further positively impacts firms' value-creating activities, profitability, return on assets and return on investments that signal firms' financial power. In other words, the place of innovativeness in enhancing the financial fortunes of a firm cannot be overstressed. Similarly, Isichei, Agbaeze and Odiba (2020) observed that through innovation, firms can capitalize on new opportunities, meet consumer needs with fresh products and services, and secure a first mover position in the industry. This is to say that innovativeness brings about the infusion of fresh products that will elicit consumer patronage in such a manner that the firm profits from it. Consistent with the afore-mentioned, Shashi, Cerchione and Singh (2019) noted that innovativeness serves as a critical factor for both financial and non-financial success of SMEs.

Relationship between Risk-Taking and Profitability of Small and Medium Scale Enterprises in Delta State

The findings of the study revealed that a highly positive and significant relationship existed between risk-taking and profitability of Small and Medium Scale Enterprises in Delta State. This points to the fact that the higher the disposition of an entrepreneur to take a risk, the greater the tendency of recording profit in the enterprise. Thus, risk-taking enables the entrepreneur to explore opportunities that will enhance the profitability of their enterprise. This is consistent with the position of Putnins and Sauka (2019) that risk-taking SMEs exhibit opportunity seeking behaviours by frequently making changes in their current strategies, while anticipating higher profits. Firm risk-taking behaviours largely reflect their willingness to deviate from well-known successful strategies to experimenting with new choices with potentially higher profits and possibly providing for unforeseen losses of venturing into the unknown. However, Putnins and Sauka (2019) observed that risk-taking firms are expected to make timely and right decisions to achieve the expected high positive returns they anticipate for. In other words, high-risk oriented SMEs are more prone to pursuing new business opportunities with higher profits. In further alignment with the findings of the study, Hoskisson, Hitt, Wan, and Yiu (2017) found that high-risk SMEs might likely commit more financial resources to implement risky and strategic project choices such as introducing new innovative products, processes, and technologies, and exploring new markets with a target for better profit performance. Similarly, Nimfa, Shaharudin, Latiff and Kembangan (2021) posited that risk-taking behaviors (proactiveness) are key indicators, which distinguish SMEs who will outlive five years of their existence resulting in their sustainability and profitability in the long run.

Relationship between Proactiveness and profitability of Small and Medium Scale Enterprises in Delta State

The finding of the study revealed that a high positive and significant relationship existed between proactiveness and profitability of Small and Medium Scale Enterprises in Delta State. This shows that proactiveness of entrepreneurs contributes considerably to profitability of enterprise. Thus, proactiveness is a huge facilitator of profitability of SMEs. Anwar and Shah (2021) found that proactiveness has been shown to have a significant influence on SMEs, enabling them to gain a strategic advantage by anticipating customer demands, implementing innovative strategies, and setting higher prices. Similarly, Nuong (2022) found that there was a significant relationship between proactiveness and firm performance. No wonder these strategic postures have attracted some scholarly interests and are often recognized amongst the good predictors of high levels of firm performance. A proactive stance is considered a source of competitive advantage and profitability for firms, particularly in today's fiercely competitive business landscape. This finding is further consistent with that of Innocent, Paul, and Amaka (2018) who found significant positive effect of proactiveness on SMEs growth.

Conclusion

Based on the findings of the study, it was concluded that a positive relationship existed entrepreneurial orientation and profitability of Small and Medium Scale Enterprises in Delta State. Finally, the study concluded that relationship between entrepreneurial orientation and profitability of Small and Medium Scale Enterprises in Delta State is significant.

Recommendations

Based on the findings of the study, the following recommendations were made:

1. Entrepreneurs should endeavour to continually take advantage of their innovativeness to enhance profitability. They can do this by creating a supportive culture, empowering employees and identifying market opportunities.
2. Entrepreneurs should sustain their risk-taking to enhance the profitability by balancing strategic risk management with an open mindset.
3. Entrepreneurs should sustain their proactiveness with a view to improving the profitability by actively identifying and pursuing opportunities ahead of competitors to maintain advantage.

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