

## **MODERATING ROLE OF ACCESS TO FINANCE ON THE RELATIONSHIP BETWEEN ENTREPRENEURIAL ORIENTATION, INNOVATION CAPABILITY AND SMES PERFORMANCE: A CONCEPTUAL FRAMEWORK**

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### **Abstract**

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*The Nigerian SMEs have experienced high levels of poor performance which motivated the researcher to conduct the current study. For this reason, the current study examine the moderating role of access to finance on the relationship between entrepreneurial orientation, innovation capability and SMEs performance in Kaduna State. Simple random sampling technique will be used to select 439 SMEs from the population of 2,826 operating in Kaduna State. The data collected will be analysed using Statistical Package for Social Science (SPSS) and Partial Lease Square Structural Equation Modeling (PLS-SEM) with the aid of SmartPLS 3.0.*

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**Keywords:** Entrepreneurial Orientation, Innovation Capability, Access to Finance SMEs Performance

### **Introduction**

The performance of Small and Medium Enterprises (SMEs) has been widely acknowledged by researchers and industry practitioners as a key driver of economic growth and development in many countries. In particular, SMEs play a vital role in the economic growth by providing a high quality of products/services in order to compete in a competitive environment (Ahmad & Jamil, 2020). It also offers the opportunity for job improvement in order to enhance their efficiency and effectiveness (Farhan & Nur Naha, 2011). Besides, Nurazree and Faiz (2013) stated that SMEs have become a backbone in the economic development of most countries, including both developed and developing countries. Likewise, Organisation for Economic Cooperation and Development ([OECD], 2017) state that SMEs create wealth, improve economic growth and offer employment in both developed and developing countries. In other



word, SMEs play a key role in national economies around the world, generating employment and value added and contributing to innovation (OECD, 2017).

In essence, SMEs has been defined and are classified into small and the medium enterprise in many countries. For example, SMEs in Ghana is defined as any enterprise or business that has 1-5 employees and fixed assets less than 10,000 USD excluding land and building as micro, 6-29 employees with fixed assets not more than 10,000 USD excluding land and building as small, 30 -100 employees with fixed assets of up to 100,000 USD as medium and above 100 employees as large enterprise (Zaato, Ismail, Uthamaputhran & Owusu-Ansah, 2020). In Cameroon, a SME is defined as firm that has turnover value of not less than 1 billion Cameroon Franc (cfa), and accrued investments are not more than 500 million cfa. In Nigeria, small enterprises are those enterprise that possessed assets (excluding building and land) above ₦10,000,000 but not more than #100,000,000 with workforce 10 or more but not above 49 employees. On the other hand, Medium Enterprises has an asset (excluding building and land) above ₦100,000,000 but not more than ₦1,000,000,000 with the range of 50 to 199 employees 199 (Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), 2017).

Although, SMEs have been defined in many countries, it still remains the key actors of economic growth and a means of employment, innovation and wealth creation, especially in the developing and developed countries (Otache & Usang, 2022; Mills & McCarthy, 2016), yet in some countries, the impact of their contributions is not well realized. Precisely, in Ghana, SMEs contribute up to 70% and 80% to gross domestic product (GDP) and employment respectively (D'Imperio, 2014). Similarly, SMEs in South Africa contributed to GDP by fifty-sixty (50-60) % and also contributed to the country employment sector by sixty (60) % (Ussif & Salifu, 2020). Despite this more evident of SMEs contribution, in Nigeria, it only contributes 9% to GDP and 39% to employment (SMEDAN, 2017). This signifies the poor performance of SMEs in Nigeria compared to Ghana and South Africa in the African context. Therefore, for a country to achieve its economic objectives like Nigeria, the survival and performance of SMEs must be prioritized.

In addition, the evidence of poor performance of SMEs in Nigeria can be confirmed from Global Innovation Index (GII) report (2023) which ranked Nigeria as 109 with a score of 18.4 in relation to 59 of South Africa with a score of 30.4 and 99 of Ghana with a score of 21.3 out of 132 countries across the world in terms of innovation (Dutta & Lanvin, 2023). This signifies that SMEs in Nigeria faced serious challenges especially in relation to innovation which attributed to their poor performance. This is because access to finance was found as important drivers for start-up and growth of SMEs in the current business world.

From the historical perspective, Nigerian past and present government created many programmes and institutions in order to assists SMEs to grow and sustain their performance. For example, Small and Medium Enterprises Development Agency of Nigeria, Microfinance Institution, the establishment of Small and Medium Enterprises Guarantee Scheme, Small and Medium Scale Enterprises Loan Scheme, establishment of National Collateral Registry, Small and Medium Industries Equity Investment Scheme, Youth Enterprise with Innovation in Nigeria, Ease of Doing Business, Anchor Borrower Programme and Government Enterprise and Empowerment Programme.

Surprisingly, despite the creation of the above programmes and institutions by past and present government SMEs still could not play the expected role of national economic development. Therefore, SMEDAN (2017) reported that majority of SMEs in Nigeria failed within their first

five years in operation. As such, some issues have been recognized as constraints to the performance and survival of SMEs, in Nigeria. These include lack of access to finance, low level of entrepreneurial orientation and lack of innovation capability (Otache & Usang, 2022; Isichei, Agbaeze & Ogdiba, 2020; Olubiyi, Egwakhe, Amos & Ajayi, 2019; SMEDAN, 2017; SMEDAN, 2012).

However, previous empirical studies that examine the relationship between entrepreneurial orientation, innovation capability and SMEs performance found inconsistencies in their findings. For instance, Solikahan & Mohammad, 2019; Hoque, 2018) found significant positive relationship between entrepreneurial orientation and SMEs performance, while others (Nasip, Fabeil, Buncha, Hui, Sondoh & Abd Halim, 2017) do not. Similarly, previous studies found that innovation capability has significant effect on SME performance (Okpalaoka, Ogunnaike & Kalu, 2022 Massie & Tumewu, 2019), other scholars (e.g., Yunhong & Chen, 2020) found insignificant relationship. In view of these inconsistencies, the study propose access to finance to play moderating role between entrepreneurial orientation, innovation capability and SMEs performance. Hence, the study proposed the following null hypothesis;

- H<sub>01</sub>: Entrepreneurial orientation has no significant effect on SMEs performance
- H<sub>02</sub>: Innovation capability has no significant effect on SMEs performance
- H<sub>03</sub>: Access to finance does not significantly moderate the relationship between entrepreneurial orientation and SMEs performance
- H<sub>04</sub>: Access to finance does not significantly moderate the relationship between innovation and SMEs performance

## **2. Literature Review And Theoretical Framework**

### **2.1 SMEs Performance**

Performance is considered as the ability of organizational functions to achieve their goals by utilizing available resources efficiently and effectively (Westover, 2008). Laitinen (2002) defines performance as the ability of an object to produce the specified dimensions as priorities in the target. In other word, Dalrymple (2004) defined performance as the firm's ability to serve and produce what the market needs at a certain time and accomplish its objectives at the lowest possible cost with the highest possible benefits. Therefore, SMEs performance can be measured by a number of actions that can be broadly divided into financial performance and nonfinancial performance.

### **2.2 Entrepreneurial Orientation and SMEs Performance**

Entrepreneurial orientation has several scholarly definitions. For example, Covin and Slevin (1991), defined entrepreneurial orientation as the firm willingness and capability to innovate, take risks and become proactive in their business activities in order to compete with rival firms in the marketplace. According to Covin and Slevin (1989) entrepreneurial orientation indicates whether business firms take decisions that are risky, proactive and innovative in achieving its objectives. Therefore, entrepreneurial orientation refers to the SMEs willingness and capability to innovate, take risks and become proactive in their business activities in order to compete with rival firms in the marketplace.

Several studies that examined the effect of entrepreneurial orientation and SMEs performance have reported mixed finding and conclusions. A study by Solikahan and Mohammad (2019) has reported positive significant relationship between entrepreneurial orientation and performance of SMEs in Karawo. Similarly, Hoque (2018) found significant positive relationship between entrepreneurial orientation and SMEs performance in Dhaka–Bangladesh. Conversely, there are scholars that found insignificant relationship between entrepreneurial orientation and SMEs performance. For example, Nasip, Fabeil, Buncha, Hui, Sondoh and Abd Halim (2017) have concluded that entrepreneurial orientation is insignificantly related to SMEs performance in Malaysia. However, Olubiyi, Egwakhe, Amos and Ajayi (2019) found negative relationship between entrepreneurial orientation and SMEs performance in Nigeria.

### **2.3 Innovation Capability and SMEs Performance**

Innovation capability can be described as the ability to continuously transform knowledge and ideas into new products, processes and systems for the benefit of the firm and its stakeholders (Omar, Aris & Nazri, 2016). It is the implementation and creation of technology applied to new systems, policies, programs, products, processes and services to the organization (Liao et al., 2009). Therefore, innovation capability refers to the ability of SMEs to continuously transform knowledge and ideas into new products, processes and marketing for the benefit of the SMEs and its stakeholders

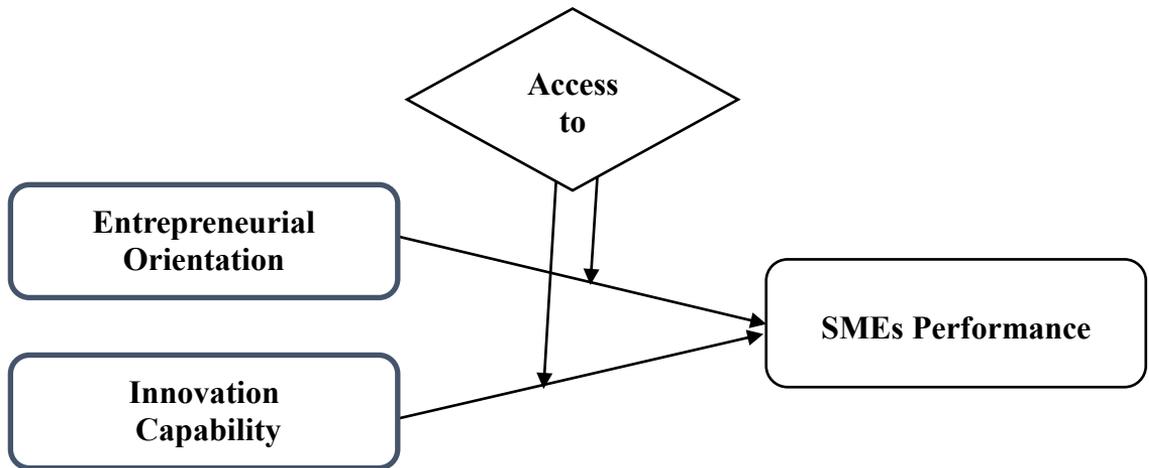
Many scholars that examined the relationship between innovation capability and SMEs performance found inconsistency in their findings. For example, Massie and Tumewu (2019) found positive and significant effect between innovation capability and SMEs performance in Manado. Also, Arshad, Arshad, Lamsali, Alshuaibi, Alshuaibi, Albashar and Chuah (2023) found that innovation capability has significant effect on SME performance in Pakistani. Similarly, Okpalaoka, Ogunnaike and Kalu (2022) found significant positive relationship between innovation capability and manufacturing SMEs performance in Nigeria. Other scholars like Hazeem, Yunhong and Chen (2020) found insignificant relationship between innovation capability and SMEs performance in China.

### **2.4 Moderating Role of Access to Finance between Entrepreneurial Orientation, Innovation Capability and SMEs Performance**

Access to finance is referred to as the SMEs availability to obtain financial capital from external sources (Bouri et al., 2011). The ability of SMEs to obtain financial resources from internal or external sources indicates important capabilities for the enterprises' survival in a competitive environment (Adomako Danso & Damoah, 2016; Fonseca, Yang, & Tian, 2013). This is due to the fact that without access to finance the enterprise objective will be difficult to achieve (Agyemang & Ansong, 2017). Similarly, many studies reported that there is a relationship between access to finance and the performance of an enterprise (Asad & Sharif, 2016). Given the importance of both access to finance for SMEs performance, it can be assumed that an owner-manager that have entrepreneurial orientation and innovation capability also need access to sources of finance in order to perform and survive the competitive nature of market. Therefore, this research will try to find out how access to the finance will moderate the effect of entrepreneurial orientation and innovation capability to strengthen SMEs performance.

### **2.5 Conceptual and Theoretical Framework**

The conceptual framework of this study is derived from a review of the literature to investigate the moderating role of access to finance on the relationship between entrepreneurial orientation, innovation capability and SMEs performance. Hence, the framework of this study is depicted in figure 1 below.



## 1. Conceptual Framework

This study used Resource-Based (RVB) Theory to explain the relationship between Entrepreneurial Orientation, Innovation Capability, Access to Finance and SMEs performance. The RBV theory was originated from the work of Penrose in (1959), which highlighted the significance of different sets of resources (tangible and intangible) in improving firm performance. Later, Barney (1991), argued that application of such tangible and intangible may lead to competitive advantage and improve firm performance. The RBV asserts that if firms operating within the same industry have homogeneous resources, then none of them will achieve sustained competitive advantage. It also asserts that sustained competitive advantage of a firm stems from its possession of heterogeneous and immobile resources valuable resources, rareness, inimitable and non-substitutable (VRIN). The theory contended that successful organisations will gain a competitive advantage based on unique capabilities to the extent that it can protect them from transfer and imitation (Teece, Pisano, & Shuen, 1997).

According to Barney (1991), firm resources refer to all assets, capabilities, organisational processes, firm attributes, information and knowledge that can be used by the firm to formulate and implement competitive strategies to better performance. Furthermore, Godfrey and Hill (1995) classified resources into physical, human or organizational resources.

In view of the above discussion, this study employed RBV theory to examine how entrepreneurial orientation, innovation capability and access to finance influence SME performance which have received little or no attention in previous studies. This study argued that entrepreneurial orientation, innovation capability and access to finance are firm's specific intangible resources which cannot be easily duplicated by its competitors. Thus, proper utilization of these resources would help the firm to maintain a competitive advantage and then achieve to higher performance.

### 3. Methodology

Cross sectional survey design is proposed in this study. Simple random sampling technique was also proposed to select 439 SMEs from the population of 2,826 operating in Kaduna State. The data collected will be analysed using Statistical Package for Social Science (SPSS) and Partial Least Square Structural Equation Modeling (PLS-SEM) with the aid of SmartPLS 3.0 (Hair, Black, Babin & Anderson, 2019; Hair, Tomas, Ringle & Sarstedt, 2017).

### 4. Conclusion and Recommendation

The study concludes that access to finance is an important variable that can moderate the relationship between entrepreneurial orientation, innovation capability and SMEs performance. The study suggests for future studies to test the conceptual framework in the context of developing countries like Nigeria which will be address by the researcher.

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