

EFFECT OF ENTREPRENEURIAL ORIENTATION AND CUSTOMER ORIENTATION ON BAKERY PERFORMANCE

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Abstract

This study attempts to investigate the effects of entrepreneurial orientation and customer orientation on bakeries' performance. Stratified sampling technique was employed to study a total of 105 out of 130 SMEs that specializes in baking of bread and other flour products. The owner-manager 5-point likert scale questionnaire was designed and served both online and offline to address the survey questions. Partial least squares structural equation modeling (PLS-SEM) technique was employed to assess the measurement and structural models indicators. The results of the study showed that entrepreneurial orientation dimensions (innovativeness, proactiveness, risk taking, autonomy and competitive aggressiveness) predict EO of bakeries in FCT and EO has significant effect on bakery performance. In this context, entrepreneurial orientation should make a significant contribution to SMEs' performance when customer orientation is considered as an investment and a key factor for firms' survival.

Keywords: Proactiveness; Innovativeness; Risk taking; Orientation; Performance; Small Medium Enterprises; Restaurants.

Introduction

Research has shown that SMEs face numerous challenges and barriers in order to compete in Nigerian market space. For example, Saleh and Ndubisi (2006) explained that in a globalised environment, SMEs face challenges due to the lack of financing, low productivity, lack of managerial capabilities, and lack of access to management and technology. Furthermore, there is a decreasing contribution from SMEs to the total value added to the GDP due to the limitation of technology adoption, skilled labour employability, production capacity increase, and market expansion. Meanwhile, the high failure rate of small firms is largely attributed to the weakness in technology and financial management (Salleh & Ibrahim, 2013). These complications are bigger for small holder bakeries as their economies of scale and resources are fewer than those of big organizations. Consequently, SME characteristics are unique and significantly different from big firms, in that the organizations have a flat structure, with few management layers, and are flexible and informal. Some studies have found that firms that demonstrate more entrepreneurial strategic orientation will perform better (Rauch et al., 2009; Wang, 2008; Wiklund, 1999), or may even lead to poor performance under certain conditions (Slater & Narver, 2000). In this context, entrepreneurial orientation (EO) has been viewed as a multidimensional construct, and should have a significant effect on bakeries performance. Although the influence of EO on firm

performance is influenced by firm size and national culture (Rauch et al., 2009), the customer orientation could also play a significant role in enhancing firm performance (Wang, 2008). Therefore, this study attempts to investigate the effects of the EO dimensions (innovativeness, proactiveness, risk taking, autonomy and competitive aggressiveness) and customer orientation on SMEs' performance with a particular attention on the bakeries in Abuja, FCT.

The specific objectives are as stated below:

- i. To examine the significance of the influence of EO on customer orientation
- ii. To assess the influence of customer orientation on firm performance
- iii. To investigate the effect of EO on firm performance

To achieve these specific objectives, the following hypotheses were formulated and tested:

H₀₁: Entrepreneurial orientation has no significant influence on customer orientation of bakery firms in Abuja

H₀₂: Customer orientation has no significant influence on bakery performance in Abuja

H₀₃: Entrepreneurial orientation has no significant effect on bakery performance in Abuja

Review of Related Literature

Conceptual Literature Entrepreneurial Orientation (EO)

Entrepreneurial Orientation was first espoused by Miller (1983) and Miller and Friesen (1983), and subsequently Covin and Slevin, (1989) and many other researchers have used and further developed these definitions across industries, countries, and cultures. For example, Lumpkin and Dess (1996) defined EO as a process, practice, and decision-making activity that leads to a new entry. It emerges from a strategic-choice perspective that new entry opportunities will be successfully implemented by purposeful enactment (Van de Ven & Poole, 1995). In contrast, a successful new entry may also be achieved when only some of these factors are operating (Lumpkin & Dess, 1996). By expanding the number of dimensions to measure EO, Lumpkin and Dess (1996) identified five dimensions of EO: autonomy, innovativeness, risk taking, proactiveness, and competitive aggressiveness that independently and collectively define the domain of EO. Although, all EO dimensions are interrelated, the dimension of EO may vary independently (Larsen and Wang, 2008), depending on the environmental, organisational, and cultural context when a firm engages in new entry (Rauch et al., 2009; Zhao et al., 2011). The five dimensions according to Lumpkin and Dess (1996) are given below.

Innovativeness

Innovativeness refers to the degree to which a firm engages in and embraces new ideas, novelty, experimentation and creativity that may lead to new products, services or processes (Lumpkin & Dess, 1996; Wang, 2008). Similarly, Covin and Slevin (1991) define innovativeness as a firm's propensity to experiment with new ideas in order to activate a process that results in new products, services, or technological development. In this context, innovativeness includes fostering a spirit of creativity, supporting R&D and experimentation, developing new processes, introducing new products/services, and technological leadership (Lumpkin & Dess, 1996, 2001). Li et al. (2008) suggest that innovativeness plays an important role in research, product development, technical expertise and knowledge transfer for future development. Consequently, a high level of technological and/or product market innovation reflects an important indicator for Small and medium bakeries to pursue new business opportunities (Chen et al., 2012; Keh et al., 2007).

Proactiveness

Lumpkin and Dess (1996) found that firm proactiveness was related to market opportunities in the process of new entry, seizing of initiative and acting opportunistically in order to shape the environment. Firms must have the strategic reactivity and responsiveness for new circumstances that often occur in uncertain entrepreneurial contexts. Accordingly, Kraus et al., 2012; Kreiser et al., 2013 and Morgan et al (2012) posit that proactive firms achieve better performance because they have a greater understanding of customer needs, competitors strategies and market environment than their competitors.

Risk taking

Risk taking refers to bold moves into unknown business areas and/or the commitment of significant resources to business activities under conditions of uncertainty (Chang & Chen, 1998; Lumpkin and Dess, 1996). Khalili et al. (2013) explain that for SMEs, risk is a crucial element in the decision-making process that will accompany those who are trying to start a new business, find a new market, or introduce a new product. In this regard, it is important for entrepreneurs to take calculated and balanced risks. Although previous research findings are at variance whether risk taking leads to high firm performance creating a lack of consensus for the relationship between risk taking and firm performance (Slovic et al., 2014; Kreiser et al., 2013; Teng et al., 2011 & Kreiser et al., 2010).

Autonomy

Autonomy refers to the ability to make decisions and to proceed with actions independently, without any restrictions from the organization (Lumpkin & Dess 1996). A necessary condition for customer orientation is autonomy (Slater and Narver, 1994), which refers to the freedom of employees to be creative, to develop new ideas and open communication and to be focused upon customer interaction and orientation (Hughes & Morgan, 2007; Lumpkin & Dess, 1996; Lumpkin et al., 2009). Autonomy, which can promote employee empowerment, can be interpreted as the opposite of tight workforce control. SMEs are characterized commonly by less formalization and unsophisticated control systems leading to greater autonomy. Flexibility enables firms to react faster to customer needs, while creativity drives innovation and uniqueness (Nuong, 2022).

Competitive Aggressiveness

According to Lumpkin and Dess (1996), “competitive aggressiveness refers to a firm’s propensity to directly and intensely challenge its competitors to achieve entry or improve position, that is, to outperform industry rivals in the marketplace”. SMEs with this behaviour tend to assume a combative posture towards rivals in an attempt to surpass competitors that threaten its survival or market position in the industry (Lyon et al., 2000). These include the use of strategies such as low price products, targeting competitors weaknesses, or in outspending competitors on marketing, product or service quality sales promotion, advertising or manufacturing capacity (Oscar, 2013). A firm’s aggressiveness can be implemented through responsive or reactive behaviour. Responsiveness may take the form of head-to-head competition or direct attack on competitors, such as when a firm enters a market where a competitor is already present.

Customer Orientation and firm performance

Small enterprises with limited resources usually serve a relatively certain group of customers in a small local market (Tajeddini et al., 2013). Eggers et al. (2013) found that SMEs with scarce financial resources tend to be more customer oriented. Due to the scarcity of resources, it will be difficult and costly to change their main services or locations. Such certain group of customers and local market, which are the main source of market information and revenue, are critical to small enterprises most especially bakery firms. Small enterprises can develop and differentiate products or services to meet the needs of the niche markets which are neglected by large firms. They also can devote their full attention to serve a group of customers that can remain stable and loyal. Because of the limited scale of market, small enterprises in bread production can react instantly to the change of markets and needs of customers. Besides, small enterprises also have a limited number of employees. This means a simple internal organization structure and a relatively cohesive culture among the stakeholders. Customer orientation, as an organization management strategy, is widely adopted by businessmen (Appiah-Adu & Singh, 1998; Nakata & Zhu, 2006).

Firm performance

Over the years, firm performance has been a subject of investigation (Karimi et al., 2021; Al-Shami et al., 2022; Ilesanmi et al., 2022). Researchers have adopted and/or adapted different approaches to measure firm performance as well as categorized performance measurements differently depending on the objectives of their investigation (Rauch et al., 2009).

Firm performance measures can be categorized as financial and non-financial performance measures (Rauch et al., 2009). Financial measures can be further categorized as subjective financial performance measures which are self-reported in nature and as objective financial performance measures which are past documented records of the firm (Keh et al., 2007). The subjective financial performance measures are based on the perception of the respondents as the firm performance over time (Keh et al., 2007), whereas the objective financial performance measure are based on the firm's records such as financial statements. The objective financial performance measures include the following: efficiency, profitability, growth, liquidity, leverage and market share. They are measured either in absolute terms or in relative terms.

However, this study used employee productivity, market share and growth.

Theoretical Literature

Resource-Based Theory

The resources- based theory of entrepreneurship argues that entrepreneurs should have access to resources which is an imperatives focus for opportunity based entrepreneurship and new venture development. The theory is based on the crucial need of resources in the growth of entrepreneurship (Alvarez & Busenitz 2001). It stresses the role played by both tangible resources such as finance and intangible resources, one of which is entrepreneurial orientation, in firm's production activities. This postulation has been further supported by many scholars such as Alam et al. (2022), Ilesanmi et al. (2022) and Karimi et al. (2022). In view of its relevance to the present study, the theory will provide the underpinning theoretical framework for the study.

Dynamic Capabilities Theory (DCT)

Dynamic capabilities refer to higher-level capabilities that facilitate knowledge convention and exchange, relationship with the environment, adoption and application of suitable entrepreneurial

orientation cultures that foster organisational improvement and constant modification of operational procedures. Di Stefano et al. (2010) assert that it enables an organisation to provide business solution and solve problems analytically as well as make market-oriented policies to modify its resource foundation. The DCT is an explanation of how, in dynamic markets, organisational responsiveness and innovativeness become timely, rapid, and flexible through entrepreneurial orientation (Bleady et al., 2018).

DCT was derived from Resource-Based theory and was intended to make up for theory's weaknesses when the focus is on sustainable competitive advantage and superior performance in an environment characterised with dynamism. However, the theory also has weaknesses which include the nature of the term itself and difficulties in determining the merits of the outcomes of the theory (Zahra et al., 2006), and a lack of clarity about what constitutes its core concepts (Ambrosini & Bowman, 2009).

Empirical Literature

Karimi et al. (2021) examined the influence of EO on firm growth using primary data collected via a structured questionnaire from Iran. The data which was analysed using structural equation modelling showed that EO has significant effect on the growth of the selected SMEs. Similarly, Nuong (2022) conducted an investigation on the influence of EO on the business performance using women owned SMEs in Thanh Hoa Province in Vietnam. The result of the primary data analysed using exploratory factor analysis and multiple regression indicated that innovation and proactiveness have significant positive influence on business performance while risk taking has a negative impact.

Another study was conducted by Al-Shami et al. (2022) in Dubai. The study which sought to investigate the effect of entrepreneurial orientation on innovation performance in the airport industry through learning orientation and strategic alignment used questionnaire to gather primary data from 413 employees from three main departments of Dubai airport. Analysis was done using structural equation modelling. The research findings revealed a significant positive relationship between entrepreneurial orientation and innovation performance.

Another relevant study to this area of study was conducted in Malaysia by Alam et al. (2022), the study which employed primary data and used PLS regression analysis beamed its searchlight on the relationship between entrepreneurial orientation and business performance among Malay-owned SMEs in Malaysia. The result of the study revealed that risk-taking, proactiveness, and innovativeness have significant positive relationship with business performance while autonomy does not exhibit any significant relationship.

Methodology

The database of bakers in the directory of the Corporate Affairs Commission and Abuja chamber of commerce and Industry was taken as a sample frame, in which there were a total of 125 baking enterprises in the Federal Capital Territory were used as the sampling frame for this study. However, a field survey indicated that only 105 are actively in business and the entire active bakery were chosen for the study via a purposive sampling technique. The owner-manager questionnaires were distributed to the firms through their association along with a cover letter introducing and explaining the purpose of the study, stressing the confidentiality of responses and enlisting the response of the participant. The majority of bakery outfit are located in the commercial towns such as Abaji, Bwari, AMAC, Gwagwalada, Kuje, Kwali, Karu, Nyanya, Wuse, Kurudu, Suleja and Gwari.

This data was collected using a five-point scale (1= strongly disagree to 5 = strongly agree) indicating varying degrees of agreement to statements about the research variables such as EO dimensions, customer orientation and SMEs' performance. The five EO dimensions were measured by adapting indicators suggested Lumpkin and Dess (1996). Eight items were adopted from Cuevas-Vargas et al. (2019) to measure customers' orientation. Meanwhile, SMEs' performance indicators were adapted from Li et al. (2008), and Bleadly et al. (2018). The final instrument was tested within a group of seven bakers to test whether the questions are clearly phrased. A few modifications were made to improve the questionnaire quality. This paper adopts both online and offline channels to reach the respondents. The questionnaire research survey was conducted from August 1 to September 2, 2020.

Data Analysis and Results

Measurement model

To empirically examine the theoretical framework identified in Figure 1, SmartPLS was employed to assess the measurement and structural models for reflective and formative constructs. The partial least squares structural equation modelling (PLS-SEM) technique was used to analyse the data by applying SmartPLS software (Ringle et al., 2005) to handle the statistical analysis for the model indicators.

The present empirical study has a quantitative and descriptive design using the statistical technique of the statistical software Smart PLS 3.2.6 (Ringle et al., 2015), in which the estimation of the measurement model was first considered and then the structural model was assessed as a model of hierarchical components (Cuevas-Vargas, 2016). In this sense, the model was measured using the indicator repetition approach (Ringle et al., 2012; Wetzels et al., 2009), which is necessary to run higher order models in PLS-SEM (Cuevas-Vargas, 2016; Hair et al., 2017). It should be noted that few independent variable items (Inn_5; Risk_4 & 5; Proa_5; Aut_1 & 5; Aggr_5; Cusf_1 & Cusr_2) had a loading less than the desirable cut-off of 0.7 and the average variance extracted was below 50%. The removal of these two items improved the variance extracted to above 50%.

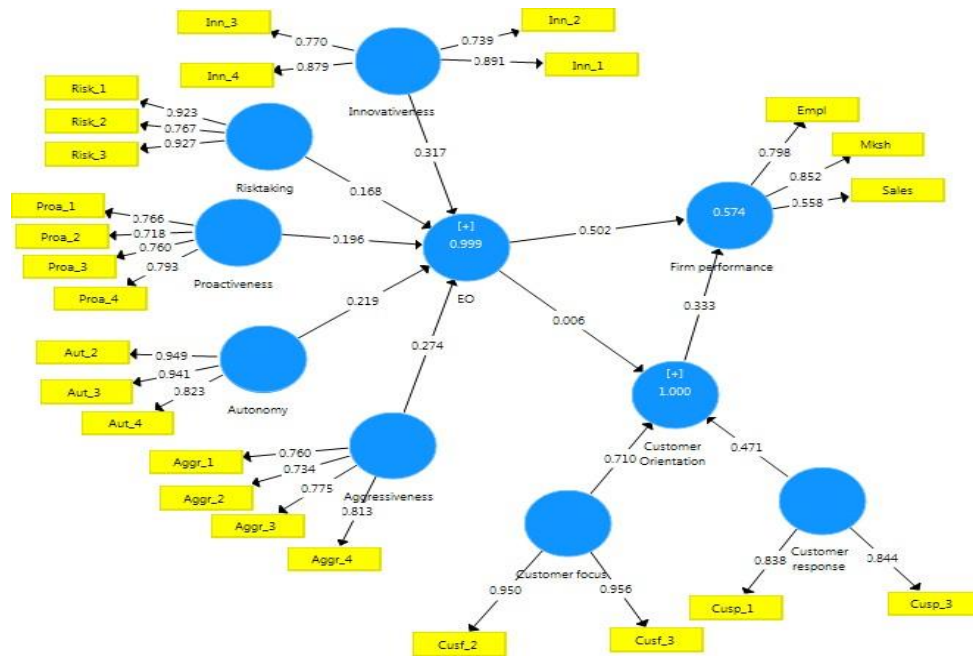


Fig. 1: PLS

Structural model for EO-CO-FP

Outer Model Evaluation (Reliability and Validity)

To assess reliability and validity, the measurement model was estimated using the PLS 3.2.6 statistical software (Ringle et al., 2015). In this sense, based on the results obtained and shown in Table 1, we highlight the internal consistency of all reflective lower and higher order constructs of the measurement model, as the composite reliability that represents the part of the variance between the group of observed variables and the underlying constructs (Fornell & Larcker, 1981), exceeds the value of 0.7 recommended by Hair et al. (2017). In addition, the Cronbach's alpha for each of the constructs is higher than 0.7 as suggested by Hair et al. (1998) and Nunnally and Bernstein (1994), and finally, exceeds the AVE (average variance extracted) value of 0.5 (Fornell & Larcker, 1981; Hair et al., 2012). Likewise, it has been found that the reliability of the indicator is higher than 0.5, as its corresponding standardized factor loading is higher than 0.708 (Hair et al., 2017), and are statistically significant ($p < .001$). This guarantees the communality of each indicator; and having obtained AVE values higher than 0.5, it is guaranteed that each of the scales used has convergent validity (Hair et al., 2017). The study also shows that the formative construct of EO has convergent validity as the redundancy analysis was above 0.7 (Hair et al., 2017); similarly, the indicators did not present problems of collinearity because the VIF value of every single indicator was under 5 (Hair et al., 2017). Finally, with respect to the significance of the outer weights (relative importance), as some of them were not significant, their absolute contribution represented through the outer loadings had to be analyzed, and all of them were higher than 0.5 and statistically significant (Hair et al., 2017). With respect to the evidence of discriminant validity, as indicated in Table 3, the square root of AVE (indicated in the diagonal) of each construct is greater than the highest correlation it shares with any other

latent construct. According to Fornell and Larcker (1981) Discriminant validity is therefore established. Based on these analyses, it can be concluded that these studies' data are clearly reliable and valid to prove the hypotheses with PLS-SEM. It therefore indicated that hypothesis H1a and b, Entrepreneurial Orientation is a second order construct with five distinct dimensions and two dimensions of customer orientation are supported.

Table 1

Measurement Model

	Items	Loadings ^a	AVE ^b	CR ^c	Rho_A ^d
Innovativeness	INN_1	0.891	0.677	0.893	0.841
	INN_2	0.739			
	INN_3	0.77			
	INN_4	0.879			
Risktaking	Rsk_1	0.923	0.767	0.907	0.84
	Rsk_2	0.767			
	Rsk_3	0.927			
Proactiveness	Pra_1	0.766	0.577	0.845	0.768
	Pra_2	0.718			
	Pra_3	0.76			
	Pra_4	0.793			
Autonomy	Aut_2	0.949	0.821	0.932	0.89
	Aut_3	0.941			
	Aut_4	0.823			
Aggressiveness	Agg_1	0.76	0.594	0.854	0.781
	Agg_2	0.734			
	Agg_3	0.775			
	Agg_4	0.813			
Customer Focus	Cuf_2	0.95	0.909	0.952	0.902
	Cuf_3	0.956			
Customer Response	Cur_1	0.838	0.707	0.829	0.716
	Cur_3	0.844			
Firm Performance	Emp	0.798	0.558	0.786	0.759
	Mks	0.852			
	Sales	0.558			

*Items removed: Indicator items are below 0.5: Inn_5, Rsk_4, Pra_5, Aut_1, Agg_5, Cuf_1 & 4, Cur_2.

- a. All loadings > 0.5 indicates indicator Reliability
- b. All Average Variance Extracted (AVE) > 0.5 as indicates Convergent Reliability
- c. All Composite Reliability (CR) > 0.7 indicates Internal Consistency
- d. All Cronbach's Alpha > 0.7 indicates Indicator Reliability

Table 2

Discriminate validity (Fornell & Larcker Criterion)

	Aggr	Auto	CO	Cusfoc	Cusresp	EO	Firperf	Inno	Proa	Rskt
Aggress	0.971									
Auto	0.531	0.966								
CO	0.576	0.487	0.956							
Cusfocus	0.360	0.412	0.900	0.953						
Cusresp	0.667	0.406	0.758	0.398	0.841					
EO	0.626	0.748	0.632	0.443	0.662	0.792				
Firm perf	0.616	0.565	0.650	0.575	0.504	0.712	0.747			
Innovative	0.604	0.507	0.615	0.382	0.717	0.619	0.618	0.723		
Proactive	0.532	0.780	0.431	0.400	0.306	0.749	0.559	0.507	0.710	
Risktaking	0.659	0.416	0.479	0.293	0.561	0.654	0.512	0.654	0.450	0.676

*The diagonals are the square root of the AVE of the latent variables and indicates the highest in any row

Table 3:

Hypothesis Testing

Hypo	Relationship	Std Beta	Std Error	T-value	Decision	f2	q2	2.5%	97.5%
H1	EO -> CO	0.007	0.006	0.958**	Rejected	0.007	0.004	-0.002	0.020
H2	CO -> FP	2.333	2.104	3.189**	Supported	0.053	0.029	3.122	3.520
H3	EO -> FP	3.508	3.096	5.201**	Supported	0.175	0.090	4.314	5.691
H4	EO->CO->FP	0.002	0.002	0.934**	Supported			0.000	0.008

**P<0.01, *P<0.05

*R² (EO = 0.998, Customer orientation = 1.000, Firm performance = 0.574)

*Effect size impact indicator are according to Cohen (1988) f² Values: 0.35 (large), 0.15 (medium), and 0.02 (small)

*Predictive relevance (q²) of predictor exogenous latent variable as according to Henseler et'al (2009) q² values: 0.35 (large), 0.15 (medium), and 0.02 (small).

Inner Model Evaluation

The starting point for evaluating inner model is the determination of strength of each structural path and the combined predictiveness (R²) of fit exogenous constructs (Chin, 1998). Falk and Miller (2011) suggest that R² for endogenous variables should be greater than 0.1. As indicated in Fig. 1 R² for model EO-CO-FP are 0.998, 1.000 and 0.574 respectively. Therefore, the estimated model, fits the survey data. After computation of path estimates, a bootstrap analysis was performed to find out the statistical significance of the structural paths. From Table 3, it becomes clear that the path coefficients for EO-CO with t-value of 0.958 is not significant as it falls outside the interval bound of (-0.002 and 0.020). Therefore it can be inferred that EO does not influence customer orientation of bakery firms. The second hypothesis tests the path coefficient for CO-FP (0.333) with t-value of 3.189 is significant as it is within the confidence interval bound (3.122, 3.520). It can be concluded that customer orientation influences firm performance. The third hypothesis test the path coefficient EO-FP with a t-value of (5.201) is positive and highly significant as it

falls within the confidence interval bound of (4.314, 5.691). Therefore, it can be inferred that entrepreneurial orientation significantly and positively predict bakery Firms Performance. The mediation path coefficients (EO-CO-FP) from EO (independent variable) to CO (mediator) is 0.002 and significant at ($p < 0.0001$) as it is within the confidence interval (0.000, 0.008). Therefore, the model involving path EO-CO-FP meets the criteria of Baron and Kenny's (1986) partial mediation and CI-CO-FP indicates the case of full mediation (Baron & Kenny, 1986). Table 3 also reveals that the Q^2 values are greater than 0, therefore the model has predictive relevance (Geisser, 1975; Stone, 1974). From the above discussion the criteria for mediation have been established.

Conclusion and Recommendation

The study extends empirical support to the notion that the role of EO is overarching as it has significant effects on FP. This means SMEs should not expect immediate financial outcome/ impact of EO. At the same time, SMEs should not ignore the strategic importance of EO and the need for synergy with CO. This would be of consequence to managers dealing with SMEs. This study suggests that focusing and managing the symbolism, behaviour, and communication will lead to better EO and thereby birth a better market performance. However, it does not mean that SMEs should focus on these dimensions in a sequential manner. These dimensions need to be managed simultaneously and in a synergistic fashion so as to reflect an integrated corporate identity across each touch point with the stakeholders to build a culture of corporate entrepreneurship. Further, the validated instrument can be used by organizations to audit or monitor their EO for better management as it encompasses the fundamentals which lie at the very heart of these constructs. Another implication for organizations is that bakery owners should know their EO domains, where they can play when deciding to responding to customers' needs. This study is a step forward in terms of bringing organizations labeled as the "less privileged category" into the ambit of the concepts of EO and CO; it also provides the rationale for the contention that marketing of an organization or its offering is not just the domain of large organizations, it applies equally to SMEs.

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