

Entrepreneurial Capability and Entrepreneurial Success of Small and Medium Enterprises: A Review of Conceptual and Theoretical Framework

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ABSTRACT

The incidence of business failure especially in the small and medium enterprises sector is on the increase. This calls for more empirical research to investigate entrepreneurial factors to address business failure. Since the person behind the successful performance is the entrepreneur himself, his capabilities express in terms of entrepreneurial orientation and entrepreneurial competencies become the most important factors to investigate to ensure business successful in a constantly changing or dynamic business environment. This paper provides a review of conceptual and theoretical frameworks on entrepreneurial orientation and entrepreneurial competencies for empirical research on entrepreneurial success factors.

Keywords: Entrepreneurial success, entrepreneurial orientation, entrepreneurial competencies, small and medium enterprises.

1.0. Introduction

Recently, the Nigerian economy was rated as the 26th largest economy in the world (Gonzalez, 2014). One would ordinarily think this is good news for a nation that has the vision of becoming the 20th largest economy in the world by year 2020 through the Nigeria Vision 20: 2020. But there is a paradox, an aberration; the same economy was rated one of the poorest countries in the world where over 70% of the population live in poverty with very low rate of industrial production growth (Mohammed, 2014). This is unlike other large economies whereby industrial production is responsible largely for the size of the economies or their GDPs.

Developed economies in Europe and America are mostly characterized by large scale industries whereas the Asian Tigers entered the league of developed economies through the development of the small and medium enterprises (SMEs) sector.

In his presentation at the recently concluded 3rd South West MicroSMES Forum, Oladele (2014) asserted that the small and medium enterprises (SMEs) sector has not been performing well in Nigeria in the recent times. This has resulted into an increase in the rate of business failure among the SMEs; the large enterprises are also not spared in Nigeria and most of them are now relocating to neighbouring West African countries. Oyelola, Ajiboshin, Raimi, Raheem and Igwe (2013) reported, based on a survey conducted by the Manufacturing Association of Nigeria (MAN) that a total of 834 companies closed their operations in 2009 across the country.

Ogundeji (2014), the South West Zonal Manager, Small and Medium Enterprise Development Agency of Nigeria (SMEDAN), also in his presentation during the 3rd South West MicroSMES Forum, was of the opinion that both internal and external factors have been responsible for business failure by the SMEs sector. He attributed the internal factor mainly to entrepreneurial capability i.e. entrepreneurial orientation and competencies to set up and manage business successfully while the external factor is environmental uncertainty occasioned by harsh economic environment in which the SMEs operate in Nigeria.

Due to the high rate of unemployment in today's Nigeria, it is now a norm that anybody that is unemployed should start a business regardless of whether such person has proper entrepreneurial orientation of innovativeness, proactiveness and risk taking or not. Therefore, many of what we have today are business owners not necessarily entrepreneurs. Jemi-Alade (2013), acknowledged that the major challenge facing SMEs in Nigeria is increasing rate of business failure which he attributed to low level of entrepreneurial orientation.

Entrepreneurial skills acquisition have been identified and adopted by government at all levels including federal, state and local as the surest programme for economic empowerment but much emphasis has been laid on the technical component of the entrepreneurial skills acquisition to the neglect of the management component which Elemu (2013) posited as one of the major factors responsible for business failure in Nigeria. Also, increasing rate of unemployment coupled with mass retrenchment in both private and public sectors has pushed many into

starting businesses even when their entrepreneurial competencies are in doubt as noted by Inyang and Enuoh (2009) who opined that the missing link to successful entrepreneurship in Nigeria is entrepreneurial competencies.

Entrepreneurial success has been a subject of research in many nations. Yusoff and Al-Dhaarfri (2013); Matin, Nakhchian, Kashani (2013); Welsh, Munoz, Chan and Raven (2012) and Rauch, Wiklund and Frese (2009) have studied the effect of entrepreneurial orientation on business success whereas Ahmad, Halim, and Zainal (2010) and Zoysa and Heath (2007) have established relationship between entrepreneurial competencies and entrepreneurial success.

Although, the level of research work in entrepreneurship research is increasing gradually in Nigeria, literature is still very scanty on entrepreneurial orientation and entrepreneurial competencies as it affect entrepreneurial success of the small and medium enterprises with the present hostile business environment.

This paper provides conceptual and theoretical framework for empirical studies on the effect of entrepreneurial orientation and entrepreneurial competencies on entrepreneurial success.

2.0. Conceptual Framework

2.1. Entrepreneurial Orientation

Miller (1983) developed the original framework on entrepreneurial orientation which focused on risk taking, innovation, and proactiveness. Covin & Slevin (1986) adopted the Miller's (1983) original framework which focused on three entrepreneurial orientation dimensions and also defined as those firms in which top managers employ entrepreneurial management styles and operating management philosophies.

According to Lumpkin & Dess (1996), entrepreneurial orientation referred to processes, practices, and decision making activities that led to new entry. However, Lumpkin & Dess (1996) conceptualized entrepreneurial orientation to consist of five dimensions of innovation, proactiveness, risk-taking, autonomy and competitive aggressiveness whereas Venkatraman (1989) identified 6 dimensions of strategic (entrepreneurial) orientation including aggressiveness, analysis, defensiveness, futurity, proactiveness, and riskiness. Regarding the relationships among the entrepreneurial dimensions, Miller (1983) and Covin and Slevin (1989) adopted entrepreneurial orientation as a one-dimensional construct; they insisted that these three dimensions can be combined into a single scale. Lumpkin & Dess (1996) on the other hand, suggested that the entrepreneurial orientation dimensions may vary independently, depending on the environmental and organizational context.

This paper even though adopted the view of Lumpkin and Dess's (1996) that the entrepreneurial orientation dimensions may vary independently also adopted the Miller's (1983) and Covin and Slevin (1986) three dimensions of entrepreneurial orientation i.e. risk taking, innovation, and proactiveness with the assumption that autonomy and competitive aggressiveness are elements of proactiveness and therefore, subsumed in proactiveness dimension.

2.2. Entrepreneurial Competencies

Entrepreneurial competency is defined as the individual characteristics including attitude and behavior, which allow the entrepreneur to achieve business success (Sarwoko, Surachman, Armanu, Hadiwidjojo, 2013). According to Man, Lau and Chan (2002), entrepreneurial competencies are a set of higher-level characteristics involving personality traits, skills and knowledge. They can be viewed as the total ability of the entrepreneur to perform his role successfully. Moreover, Kiggundy (2002) noted that entrepreneurial competency is the sum total of the entrepreneur's requisite attributes for successful and sustainable entrepreneurship, including attitudes, values, beliefs, knowledge, skills, abilities, personality, wisdom, expertise (social, technical, managerial), mindset and behavioral tendencies. According to Bird (1995), competencies are seen as behavioral and observable but only partly intrapsychic characteristics of an entrepreneur. Consequently, competencies are changeable and learnable, allowing intervention in terms of the selection, training and development of entrepreneurship. Man et al. (2002), identified six major areas of entrepreneurial competencies in relation to an SME context, including opportunity, relationship, conceptual, organizing, strategic, and commitment competencies. These competencies are supposed to play different roles in affecting an SME's performance with their direct and indirect effects. Inyang and Enuoh (2009) analyzed nine areas of entrepreneurial competencies which they considered as the missing link to successful entrepreneurship in Nigeria. These are: time management, communication, human

resources management, marketing management, business ethics, social responsibility, leadership, decision making and financial management.

Also, Man (2001) recommended components for measuring entrepreneurial competencies, namely; strategy, commitment, opportunity, relationship, learning and personal competency whereas Ahmad, Ramayah and Kummerow (2010) used the measurement of entrepreneurial competencies covering: strategic, conceptual, opportunity, relationship, learning, personal, ethical and familism. Huck (1991) emphasized twelve (12) competency areas that are required for small business success, including: starting a business, planning and budgeting, management, marketing/selling, advertising and sales promotion, merchandising, financing and accounting, personnel relations, purchasing, production, facilities and equipment, and controlling risk.

3.0. Theoretical Framework

3.1. Entrepreneurial Orientation

Personality Trait Theory

Personality trait was defined as stable qualities that a person shows in most situations (Coon, 2004). Personality trait theory is a psychological theory; like any other psychological theories, the level of analysis is the individual (Landstrom, 1998). Personality theory emphasized personal characteristics that define entrepreneurship; such characteristics include: need for achievement, locus of control risk taking, innovativeness, and tolerance for ambiguity. This theory believes that these characteristics are unique to entrepreneurs and a combination of these attributes stand to distinguish entrepreneurs from non-entrepreneurs.

It is held that those with characteristics identifiable with entrepreneurs will have a higher propensity to function in entrepreneurial realms (Lachman, 1980). Three personality characteristic have featured prominently in entrepreneurship literature: risk-taking propensity; personal values (responsibility, duty etc.); and the need for achievement. This school contends that entrepreneurship is a trend that develops over time in an individual through the process of socialization (Owoseni & Akanbi, 2011). Perhaps the best way to explain personality traits is to explain it as drawing inference from behavior. Personality traits represent broad classes of behaviors, which are indeed weak predictors of specific behavior (Epstein & O'Brian, 1985).

Covin & Slevin (1991) developed a conceptual model of entrepreneurial behavior at the organizational level by considering entrepreneurship to be a dimension of strategic posture encompasses a firm's risk-taking propensity, its ability to be competitively aggressive, proactive manners, and product innovation and thus all manner of organizations may behave entrepreneurially. Forty-four propositions were derived from this model. First, firms should be viewed as entrepreneurial entities, and this entrepreneurial behavior is often an integral part of the firm's management. In Begley and Boyd's (1987) study, business founders were higher in risk taking and had more tolerance to ambiguity than non-founders.

3.2. Entrepreneurial Competencies Models

Competency movement has been credited to McClelland (McClelland, 1973). Competency has been defined to encompass clusters of skills, knowledge, abilities, and behaviour required for people to succeed (Davis, Naughton, and Rothwell, 2004).

According to Mansfield (1996), the competency model is a detailed description of behaviors which employees require in order to have the ability to be effective in a job. Fundamentally, we may regard the competency model as a set of success factors which contribute to achieving high performance and concrete results. The competency model is important because it provides a road map for the range of behaviors that produce excellent performance (Lee, 2008).

Onstenk (2003) presents a three-layered concept of entrepreneurship competencies, and noted that proper entrepreneurial competencies are helpful when undertaking to start an enterprise and to help it survive or grow; furthermore, entrepreneurial competency is the integrated ability to perform entrepreneurial activities effectively. These comprise mainly: the ability to recognize and analyze market opportunities; the ability to communicate, identify mentally, persuade and discuss with all stakeholders in the business environment; and the ability to establish networks linking with business persons and stakeholders for mutual learning and collaborative undertaking.

Fortunately, some valuable entrepreneurial competency models can be easily accessed for study, such as: the Generic Entrepreneur Competency Model developed by Mansfield, McClelland, Spencer and Santiago (1987)

for the purpose of identifying potential successful entrepreneurs; and the National Research Council of Canada (NRC) Entrepreneurship Model offered by NRC for the purpose of supporting employees in making a successful transition to entrepreneurship in a technology or science-based business venture. The Generic Entrepreneur Competency Model is completely described in the book *Competence at Work: Models for Superior Performance* (Spencer and Spencer, 1993), while the NRC Entrepreneurship Model is fully displayed on the website of the NRC.

The Generic Entrepreneur Competency Model includes seven clusters (achievement, thinking and problem solving, personal maturity, influence, directing and controlling, orientation to others, and additional competencies), and each cluster comprises a number of separate competencies; in total there are 22 competencies in this model. As for the NRC Entrepreneurship Model, it is basically divided into three clusters (achievement/results orientation, interpersonal and team-building, and business focus), in which every cluster involves some varied competencies according to different levels.

The competency approach has become an increasingly popular means of studying entrepreneurial characteristics (Bird, 1995; Baron and Markman, 2003; Chandler and Jansen, 1992; Lau, Chan and Man, 1999; Martin and Staines, 1994; McGregor, Tweed and Henley-King, 2000; Schmitt-Rodermund, 2004). In particular, the influence of the entrepreneur is considered as critical and this is addressed through the competency approach. Boyatzis (1982) articulated that entrepreneurial competencies are related to managerial competencies.

According to Bird (1995), competencies are seen as behavioural and observable, and therefore are more closely linked to performance than are other entrepreneurial characteristics such as personality traits, intentions or motivations (Herron and Robinson, 1993; Gartner and Starr, 1993).

Man et al. (2002) developed a framework for entrepreneurial competencies based on a multi-dimensional conceptualization of SMEs competitiveness, including the performance dimension, potential dimension and process dimension, developed from earlier studies of competitiveness (Oral, 1986; Feurer and Chaharbaghi, 1994; Buckley, Pass and Prescott, 1988).

In her proposition towards a "Theory of Entrepreneurial Competencies", Bird (1995) suggests that it is worth looking at education, prior work experience, and industry experience as factors that could influence the development of entrepreneurial competencies. A number of studies support this view. For example, Chandler and Jansen (1992) found that education, to some extent, contributes to the development of the competencies of business founders. Krueger and Brazeal (1994) indicated that prior work experience could potentially improve one's skills and abilities, particularly in recognizing business opportunities.

4.1. Entrepreneurial Orientation and Entrepreneurial Success

In entrepreneurship research, entrepreneurial orientation has been found to have a positive impact on firm performance (Covin and Slevin, 1991; Smart and Conant, 1994; Wiklund, 1999). Firms with high levels of entrepreneurial orientation tend to constantly scan and monitor their operating environment in order to find new opportunities and strengthen their competitive positions (Covin and Miles, 1999) and improve their performance. As part of their environmental scanning and monitoring activities, firms look for information that help them better meet the needs of their customers, manage their risks taking, as well as challenge their competitors. In particular, Smart and Conant (1994) contended that higher entrepreneurial orientation, together with a wide variety of distinctive marketing competencies, lead to higher performance. Also, Wiklund (1999) noted that high entrepreneurial orientation is closely related to first-mover advantages and the tendency to take advantage of emerging opportunities, which ultimately has a positive influence on performance. Liu (2004) noted that in a dynamic and complex industry, entrepreneurial orientation is required for successful business performance.

Poon (2006) examined relationships among three self-concept traits, entrepreneurial orientation, and firm performance using survey data from 96 entrepreneurs by applying path analysis to test the direct and indirect effects of the trait variables on perceptual measures of firm performance. Entrepreneurial orientation – operationalized to reflect the dimensions of innovativeness, pro activeness, and propensity to take risks – was used as the mediating variable for explaining the relationship between self concept traits and firm performance. The results indicated that internal locus of control was positively related to firm performance, and entrepreneurial orientation did not play a mediating role in this relationship. In contrast, generalized self-efficacy had no direct effects on firm performance; however, it influenced firm performance positively through its effect

on entrepreneurial orientation. Finally, self-attributed achievement motive was not significantly related to entrepreneurial orientation or firm performance.

Keh, Nguyen and Ping Ng (2007) examined how entrepreneurial orientation (with cores dimension of risk taking, acting proactively and innovativeness) affects information acquisition and utilization as well as the performance of SMEs. The study observed that entrepreneurial orientation was a significant predictor of information acquisition and information utilization while information acquisition was a strong predictor of information utilization. Information acquisition was however, not a mediator of the relationship between entrepreneurial orientation and firm performance whereas information utilization was a partial mediator in the relationship between entrepreneurial orientation and firm performance. Information Utilization demonstrated a significant and positive effect on firm performance.

Madhoushi, Sadi, Delavari, Mehdivand and Mihandost (2001) studied the relationship between entrepreneurial orientation, knowledge management and innovation performance using random sampling technique to select 365 SMEs who are at least ten years old from the SMEs operating in the industrial zone of Mazandaran, Iran. The study found a positive relationship between entrepreneurial orientation and innovation performance as well as positive relationship between entrepreneurial orientation and knowledge management. Knowledge management was found to be a mediator between entrepreneurial orientation and innovation performance.

Pratono, Wee, Syahhari, TyazNugraha, Mat and Fitri (2013) conducted a study on the impact of innovation success as mediator variable on relationship among entrepreneurial orientation, human capital, social capital and firm performance using data collected from random selected respondents from small and medium enterprises units in Johor Bahru, Malaysia and Palembang, Indonesia. Through employed innovation success as mediator variable, the research indicated as positive relationship between entrepreneurial orientation and firm performance while negative relationships were observed between human capital and firm performance and social capital and firm performance.

Frese, Brantjes and Hoorn (2002) conducted a study on the psychological success factors of small scale businesses in Namibia: the role of strategy process, entrepreneurial orientation and the environment using cross-section research design approach and structured questionnaire to obtain data from entrepreneurs located at suburban industrial areas of Windhoek operating in manufacturing, construction, trade, service sectors selected at random from list of SMEs (minimum of one year in business, minimum of one employee and maximum of 50) registered with the Namibian National Chamber of Commerce and Industry, Yellow pages, recommendation by other SMEs and random walk procedure. The established a positive relationship between entrepreneurial orientation and all the three success measures while perceived environmental difficulty was found to have a clear moderator effect on the relationship between the entrepreneurial orientation and two economic success measure size and growth whereas there was no such effect with subjective success measure.

4.2. Entrepreneurial Competencies and Entrepreneurial Success

Business success will be influenced by the skill and the ability (competence) of the owner/manager. Understanding the role of entrepreneur gives a better insight about what competencies needed by entrepreneurs to ensure the survival of the business as well as business success. The role of decision makers is focusing on the development of entrepreneurial competencies (Ahmad, Halim, and Zainal, 2010). Kiggundy (2002) conceptualizes entrepreneurial competencies as the total sum of entrepreneurs attributes such as attitudes, beliefs, knowledge, skills, abilities, personality, expertise and behavioural tendencies needed for success and sustaining entrepreneurship. An in-depth analysis of entrepreneurial competencies saw competencies of entrepreneurs as having dual origins: first, components that are more deeply rooted in the entrepreneur's background (i.e. traits, personality, attitudes, self image, and social roles) and second, components that could be acquired at work or through theoretical or practical learning (i.e. skills, knowledge, and experience). Entrepreneurial competencies influence significantly business success (Man, Lau and Chan, 2002); Ahmad et al. (2010) argued that entrepreneurial competencies as a predictor of business success SMEs in Malaysia, even its influence more strongly for stable environmental conditions as well as dynamically. The capabilities and characteristics of the personality of those who manage companies universally regarded as one of the most powerful factors have a positive or negative impact on performance (Zoyza and Herath, 2007). Ability to demonstrate the competence of the owner/manager of a small business, where the competence of that will be affected by entrepreneurial characteristics of the respective owners/managers.

Sarwoko *et al.*, (2013) reported that entrepreneurial competencies mediate the relationship between entrepreneurial characteristics and business performance and that entrepreneurial competencies have a

significant influence on business performance. Inyang and Enuoh (2009) identified eight areas of entrepreneurial competencies to avert business failure in Nigeria and called for more research attention in entrepreneurial competencies to move business idea from concept to a value creating and profitable firm having observed increasing rate of business failure especially in the SMEs sector which has been recognized and acknowledged as engine of economic growth.

5.0 Conclusion

In the light of increasing business failure especially in the small and medium enterprises sector due to increasing harsh environmental condition in which they operate, it becomes imperative to investigate entrepreneurial success factors most especially factors that are directly related to the entrepreneurs themselves relevant for success in harsh business environment. This paper provides a review of conceptual and theoretical frameworks on entrepreneurial orientation and entrepreneurial competencies as factors related to entrepreneurial capability to ensure entrepreneurial success.

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