EMPIRICAL ANALYSIS OF ENTREPRENEURIAL ORIENTATION AND FINANCIAL PERFORMANCE IN SELECTED PAINT MANUFACTURING FIRMS IN LAGOS STATE, NIGERIA.

Inegbedion Daniel O. (Ph.D)*a

*College of Management Sciences, Department of Business Administration, School of Part time studies. Crawford University, ketu-Igbesa, Ogun State, Nigeria.*Email daniscoy2k@yahoo.com, danielinegbedion79@gmail.com

Afolayan Micheal O. (Ph.D)‡b

Faculty of Management Science, Department of Business Administration. Anchor University, Ayobo, Lagos state. Nigeria

Opaleye, Muyiwa A.‡c

Post Graduate student of Department of Business Administration, Faculty of Management Sciences, Ekiti-State University, Ado-Ekiti, Nigeria.

Abstract

The Purpose of this study is to empirically evaluate the effect of entrepreneurial orientation (EO) on performance in selected paint manufacturing firms in Lagos state, Nigeria. Both purposive and stratified random sampling technique was adopted in which only three hundred responded to the survey questionnaire and published annual report were also used to collect data from a period of 2012-2017. Descriptive statistics were used to analyse the data and while regression analyses were also used to test and achieved the objectives. The results revealed that there was a positive relationship and significant effect between entrepreneurial orientation variables and performance of sales and profit growth in paint manufacturing firms.

Keywords: Entrepreneurial Orientation, Financial Performance, Paint Manufacturing Firms
1 Introduction

The emerging concept of the overall strategic position of Entrepreneurial Orientation (EO) was derived from the word entrepreneurship. This concept has gained ground among scholars of entrepreneurship and strategic management literatures. Against this background, business oriented organizations are designing strategies of being innovative and involves risky commercial ventures such as investing huge resources in innovative and proactive ideas. The prominence of entrepreneurship orientation is concentrated on innovative change and exploitation of opportunities respectively. Entrepreneurship therefore is to create and develop economic activities by blending risk-taking, creativity and innovation with other sound entrepreneurial skills and strategies within a new or existing organization. Hence, sound entrepreneurs explore, discover and create future products and services to achieve sales and profit level (Shane and Venkataraman, 2000; Welter & Alvarez, 2015). To achieve this, entrepreneurs are known to have the following characteristics; innovativeness, risk-taking, pro-activeness, taking advantage of opportunities and creativity (Hisrich, Peter & Shepherd (2012); Antoncic, Bratkovic, Singh & DeNoble (2015b). All of these traits, features, behaviour and strategies tend to help individuals establish and manage business manufacturing firms to attain high profit and sales performance.

Consequently, firm levels of orientation capture organization’s strategic making decision, managerial philosophies and firm level of behaviour that is entrepreneurial in nature (Anderson, Covin & Slevin 2009). Hence, the multi-dimensional concept establishes the need for firms to have the willingness to be innovative, search and recognize new business opportunities, under-take new products and services ahead of competitors and employs more resources to venture into risky opportunities. Furthermore, Entrepreneurial Orientation is an all-inclusive multi-dimensional behaviour of innovativeness, pro-activeness, risk-taking culture or traits and competitive aggressiveness (Covin, Jeffry & Lumpkin, 2011; Wales, Gupta & Fariss 2013). Firm behaviour is characterized with various entrepreneurial strategies and activities. These activities entail designing and developing new product entry, searching and creating opportunities to enter into a new market, enter into an unknown market with adequate resources and aggressively creating and designing new products and services in order to push the competitors out of the industry. This entire inexhaustible list of entrepreneurial strategies and behaviour is known as entrepreneurship orientation.

Thus, firm innovative orientations are the functions or activities of an entrepreneur to introduce new production and administrative techniques, operations, services, explore and produce new technology and recognize new opportunities in the local and international market (Covin and Miller, 2014) that will serve as a source of evolution to the whole society. Similarly, firm entrepreneurial leadership approach is a source of creative power for innovation and this behaviour can lead to performance of sales and profit level which serves as the dominant return on the personal activity of the entrepreneur (Schumpeter, 2002; Lintunen 2000; Rauch, Wiklund & Lumpkin 2009; Zeng, Xie & Tam 2010). Apparently, entrepreneurial firms obtain a competitive advantage by routinely making dramatic innovations, having the tendency to be proactive and involves in the commitment of resources in risky product and service development.

To this end, achieving high sales and profit level can be determined from the angle of embarking on innovative activities, hence, entrepreneurial orientation (EO) can be described as the procedure, strategic decision making process or behaviour that leads organization venturing into new market or new product. It also denotes strategic making processes that provide organization with a basis for entrepreneurial decisions and actions. Therefore, the EO
dimensions can be seen from different perspective depending on the corporate environment in which it can be applied. The flux of the profile of EO dimensions are numerous which are innovation, pro-activeness, risk-taking, competitive aggressiveness, autonomy, dynamic environment, culture and capability. However, only a few of them were adopted in the course of this study depending on the nature and perspective of the organization.

Thus, the study evaluates the relationship between entrepreneurial orientation (EO) and performance of selected paint manufacturing firms in Lagos state, Nigeria. This study contributes to theory in a number of ways. For instance, the contribution of the empirical work of Covin and Wales (2012) and Weng and Lin (2012) which focused on assessing and evaluating the impact of the EO on business performance. The theory further proved that the direct effect of EO dimensions such as innovativeness, risk-taking, pro-activeness and competitive aggressiveness has a positive relationship with SMEs performance in a dynamic environment.

The outline of this study is as follows. First and foremost, empirical review of literatures, furthermore, the methodology of conducting the research, next, the analyses of results and discussion of findings. Finally, conclusion and recommendations were provided. Therefore, this study only considered the quoted paint manufacturing firms. Hence, future study should extend their frontiers by covering both quoted and non-quoted paint firms. Also, possible limitations are the correctness of extracted data since the data used are those published, collected from internal financial records and personal interaction with the firms. Any error in figures in the preparation of financial reports and internal records which might affect the result of the study since this data would be used in analysis. Thus, the study explored the different variables of entrepreneurial orientation such as innovation, risk-taking, pro-activeness and aggressive competition among selected paint manufacturing firms in Lagos state, Nigeria.

2. Literature Review

2.1 Entrepreneurial Orientation

The concept Entrepreneurial Orientation (EO) has a variety of brand labels among past researchers including entrepreneurial orientation, actions, behaviour, intensity, style, posture, activity, proclivity, propensity, and in some cases, corporate entrepreneurship (cited in covin & wales, 2012). Undoubtedly, none of the terms is accord by particular researchers depending on the phenomenon of events. EO has been described as the core elements of Innovativeness, risk taking, and pro-activeness. It is seen as that entrepreneurial process that involves opportunity recognition/opportunity creation through the development and creation of ideas to a start-up of a business venture (Harms, 2013). Entrepreneurial orientation is the ability of entrepreneurial firms to gain access or enter into new and unknown market (Lee & Peterson, 2000). The activities of entrepreneurial firms consisted of product-market innovation, proactive decision-making, opportunity recognition, risk-taking and aggressive competition among rivals (Kreiser & Davis, 2010). Hence, the concept of EO is related with the creation of new market opportunities and the rejuvenation of new or existing channels of operation. The terms also constitute the philosophy of the firm to conduct a business in alignment of the environment (Murray, Gao & Kotabe, 2011). Entrepreneurial orientated organisations involves in scanning the internal and external environment in order to take advantage of new opportunities, identify threats and stay competitive (Hult & Ketchen,
Avlonitis and Salavou (2007) states that entrepreneurial orientation (EO) reflects the firm managerial philosophy to embark on proactive and aggressive actions in order to take advantage of new opportunities. Cools and Van den Broeck (2007, 2008) further opined that EO is a top management strategic decision making operation which involves innovation, pro-activeness and risk taking. Rauch, Wiklund, Lumpkin & Frese, (2009) also defined EO as a strategic approach to decision making practices towards entrepreneurial actions and behaviour. The strategic behaviour of a firm involves in innovativeness, opportunity searching and recognition, risk-taking ability and aggressively competing with other firms to outperform them. Innovativeness is the tendency of a firm to develop new ideas, novelty, products, processes and techniques/technology in order to meet customer needs. Pro-activeness is viewed as opportunity identification; recognition and exploring new opportunities towards an emerging new market (Lumpkin & Dess, 1996; 2001). Risk-taking involves the bold actions of a firm to enter into unknown markets, committing very large amount of resources in innovative and proactive ideas (Lumpkin and Dess 2001; Keh, Nguyen & Ng, 2007; Ndubisi & Iftikhar, 2012). Finally, competitive aggressiveness is a strategic making posture in order to forcefully react to competitor’s actions with a view to improving performance (Kraus, Frese, Friedrich & Unger, 2005).

2.2 Organisational Performance

There is no one single method of measuring performance among scholars of research. Prior studies, however, have suggested that performance measurement includes both subjective (financial) and objective or self-reported (non-financial) performance (Wiklund & Shepherd, 2005). Knight (2000) is of the opinion that majority of researchers make used of objective (Non-financial) performance measurement. Wiklund & Shepherd, (2005) measured performance in terms of sales growth, employee’s growth, gross margin and profitability. Therefore, the study tends to explore both the financial and or non-financial performance in terms of sales Growth and profitability of the firm.

2.3 Empirical Review

Empirical reviews indicated that numerous researches have been done on entrepreneurial orientation in developed and developing nations around the world (Lumpkin & Dess, 1996; 2001; Wiklund & Shepherd 2005; Rauch, Wiklund, Frese & Lumpkin, 2004; Covin, Green & Slevin 2006; Aktan & Bulut (2008); Seyed, 2012; Oyedijo 2012, Boohene, Marfo-Yiadom & Ahomka-Yeboah 2012; Ngoze, Bwisa & Sakwa, 2014, Zehir, Can & karaboga, 2015, Ukonu, Obi & Emerole, 2017; Nwekpa, Onwe and Ezezue 2017, Rezaei & ortt, 2018). Lumpkin & Dess (1996) examined the relationship between five dimension of entrepreneurial orientation model namely autonomy, innovativeness, risk taking, pro-activeness, and competitive aggressiveness on firm performance, a moderating role of environment and Industry Life Cycle. Lumpkin and Dess (2001) further studied only two of the variables pro-activeness and competitive aggressiveness. The study found that pro-activeness had a positive relationship with performance. However, competitive aggressiveness was poorly related with performance. Rauch, et al (2004, 2009) studied the work of past researchers on Entrepreneurial orientation (EO) on firm performance in developed nations. The result indicated a moderate positive correlation between EO indicators and performance. Wiklund & Shepherd (2005) empirically, studied a
configurationally approach on the effect of entrepreneurial orientation on small business performance of developed nations in Sweden. The results revealed that EO had a significant positive relationship with small business performance. Furthermore, the study found that EO variables such as pro-activeness, innovativeness, and risk taking positively influence small business performance. Thus, many of studies between EO and financial performance had a positive results (Aktan and Bulut 2008; Oyedijo, 2012; Seyed, 2012; Boohene, et al. 2012; Ngoze, et al. 2014; Zehir, et al. 2015; Ukonu, et al. 2017; Nwekpa, et al. 2017; Rezaei & ortt, 2018). However, other studies on EO and performance showed negative or no relationship (Hart, 1992; Naldi, Nordqvist, Sjoberg & Wiklund, 2007). While studies on EO and performance showed a direct and indirect impact relationship depending on the environment (Kellemanns, Eddleston Barnet & Pearson, 2008; Lumpkin & Dess, 1996). Among these studies, it has been observed that adequate study on entrepreneurial orientation has not been done in the paint manufacturing firms in Nigeria and no study utilize the used of secondary data, therefore creating a gap; hence, this study evaluated the various construct or variables of entrepreneurial orientation (EO) such as innovation, pro-activeness, risk-taking and competitive aggressiveness on performance in paint manufacturing firms in Nigeria. Therefore, the following basic hypotheses were formulated.

**Ho1**: Innovativeness has no significant effect on performance of sales and profit growth.

**Ho2**: Risk taking o has no significant effect on performance of sales and profit growth.

**Ho3**: Pro-activeness has no significant effect on performance of sales and profit growth.

**Ho4**: Competitiveness has no significant effect on performance of sales and profit growth.

3. Research Methodology

The study area was conducted in eight registered quoted paint manufacturing firms in Lagos state, Nigeria. However, Lagos state was predicated on the fact that Lagos was considered the commercial capital of Nigeria with modern commercial infrastructure and socio-economic activities that support entrepreneurship activities all year round. Lagos has the highest proliferation of paint manufacturing firms compared to other states. Accordingly, a choice of any other area in Nigeria would probably not provide large and adequate population of paint production companies needed for a study of this magnitude. The study population were 3,200 staff of the eight (8) quoted paint manufacturing firms. The company directories support this figures. In order to facilitate the collection of relevant data from groups or organisations of respondents, both purposive and stratified random sampling techniques were adopted. A simple random sampling technique without replacement was used in each functional unit to make sure that the employees within the units have equal chances of being selected. Both Primary and Secondary sources of data collection was adopted in this study. Primary sources of data were used to collect data from 300 respondents out of 400 copies of structured questionnaire distributed and while secondary data was obtained from published annual financial reports and internal financial records covering a period of 2012-2017. EO variables such as innovation, pro-activeness, risk-taking and competitive aggressiveness was measured by five items or indices mainly adapted from Wang and Ahmed, (2004); Anderson Covin and Slevin (2009); Covin and Wales, (2017);
Dess and Lumpkin (2005) and the work of Rauch, Wiklund, Lumpkin, and Frese, (2009) which made up a modified version of the scale constructed by Covin, Green and Slevin, (2006). All multi-item measures were based on five-point Likert scales (for example, from 1 = strongly agreed to 5 = strongly disagree). Financial and Perceived approach for measuring performance of manufacturing firms was adopted from empirical work of Kim, Park, & Yoon, (1997); Morgan & Strong, (2003) and Wiklund and Shepherd, (2003) with return on sales (ROS) and Net profit Margin (NPM) which were used to measure performance of sales and profit level. Hence, sales and profit figures are best obtained from financial reports of firms. Thus, performance measures were also obtained from primary sources of data, through respondent performance indications. in order to check the reliability and consistency test of the instrument, Cronbach’s alpha test was run. The value of Cronbach’s alpha was 0.703. The value was above the standard value or acceptable reliability and internal consistency proposed by Nunnally & Bernstein, (1994) of .5 or .6, showing that the instrument is reliable and consistent. Descriptive statistics such frequency distribution and inferential statistical tool such as Ordinary least square (OLS) method of regression Analysis were adopted in this study. The regression-analysis was employed to test the corresponding hypotheses according to the objectives of the study.
4. Results

4.1 Descriptive Analysis

In this session, the result of the analysis and the corresponding discussion from the data collected were presented. The analyzed results were presented via descriptive statistics such as tables, and percentages while the formulated hypotheses were subjected to test using ordinary least square method of regression analysis (OLS). The four stated objectives were achieved in the study using those statistical tools.

Table 1: Descriptive financial statistics on innovative activities

<table>
<thead>
<tr>
<th>Year</th>
<th>Numbers of new technological &amp; innovative machines</th>
<th>No of new paint products</th>
<th>Return on Sales (ROS) %</th>
<th>Net profit Margin(NPM) %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>47</td>
<td>85</td>
<td>26.2</td>
<td>17.1</td>
</tr>
<tr>
<td>2013</td>
<td>68</td>
<td>89</td>
<td>30.1</td>
<td>21.8</td>
</tr>
<tr>
<td>2014</td>
<td>70</td>
<td>96</td>
<td>30.4</td>
<td>20.8</td>
</tr>
<tr>
<td>2015</td>
<td>75</td>
<td>160</td>
<td>34.5</td>
<td>24.0</td>
</tr>
<tr>
<td>2016</td>
<td>80</td>
<td>170</td>
<td>40.6</td>
<td>20.7</td>
</tr>
<tr>
<td>2017</td>
<td>95</td>
<td>179</td>
<td>45.4</td>
<td>30.3</td>
</tr>
</tbody>
</table>


Table 1 showed secondary data used for innovation variable covering a period of 2012-2017. For innovative activities, data was extracted on total numbers of technological and automated machines and new variety of paint products/brands produced by the firms. On the other hand two key indicators constitute measures of the sales and profit level Proxies Return on sales (ROS) and Net Profit Margin (NPM). ROS and NPM was quantify in terms of percentage change in sales and profit from 2012-2017.

In 2012, (47) automated and technological machines were purchased by the firms, (68) were purchased in 2013, (70) machines were bought in 2014, (75) in 2015, (80) in 2016 and while (95) in 2017. Secondary data collected showed that there was continuous increase in the numbers of innovative, automated and technology machines purchase by the firms between 2012, 2015, 2016 and 2017, with 2017 having the highest value (95) of innovative machines.

Similarly, in 2012 a total number of (85) new variety of paint products was produced by the firms, (89) in 2013, (96) in 2014, (160) in 2015, (170) in 2016 and (179) in 2017. The data collected showed that there is a steady increase in variety of paint products in the Nigeria market and that the companies engage in the development of different paint brands.
### 4.2 Regression Analysis

Table 2: Ordinary least square (OLS) method of regression Analysis between EO variables & Performance

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R</th>
<th>Std. Error of the Estimate</th>
<th>F-Value</th>
<th>Beta</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovativeness</td>
<td>.865&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.748</td>
<td>.742</td>
<td>1.0049</td>
<td>34.400</td>
<td>.179</td>
<td>.000&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>Pro-activeness</td>
<td>.818&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.669</td>
<td>.660</td>
<td>1.1051</td>
<td>31.300</td>
<td>.145</td>
<td>.000&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>Risk-Taking</td>
<td>.782&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.611</td>
<td>.597</td>
<td>1.1311</td>
<td>33.100</td>
<td>.168</td>
<td>.000&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>Competitive aggressiveness</td>
<td>.775</td>
<td>.600</td>
<td>.551</td>
<td>1.3201</td>
<td>34.200</td>
<td>.189</td>
<td>.000&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

b. Predictors: (Constant), Innov, RT, PR & CA
c. *Sig at .05 level

Table 2, examined the effect of Entrepreneurial Orientation on sales and profit performance proxies return on sales and profit growth in the paint manufacturing firms. Therefore, in order to achieve the stated objectives a regression model was constructed to test the data collected and analysed. Thus, the table showed the regression result of innovativeness, pro-activeness, risk-taking and competitive aggressiveness. R=0.865 which is 86.5%, showing a linear positive relationship between innovativeness (product and technological innovation) and performance of return on sales profit growth in paint manufacturing firms. The R square of .748 indicated that 74.8% variations in dependent variable (return on sales and profit) is explained by independent variables (product innovation). That is product and technological innovation predicted 74% of dependent variables performance (return on sales & profit growth). Therefore, innovativeness had a significant effect on performance of return of sales and profit in the paint manufacturing firms. Similarly, R=0.881 which is 88.1%, showing a linear positive relationship between pro-activeness and performance of return on sales profit growth in paint manufacturing firms. The R square of .669 indicated that 66.9% variations in dependent variable (return on sales and profit growth) is explained by independent variables (Pro-activeness). That is pro-activeness predicted 66% of dependent variables performance (return on sales & profit growth). Hence, pro-activeness had a significant effect on performance of sales and profit growth. More so, R=0.782 which is 78.2%, showing a linear positive relationship between risk-taking and performance of return on sales profit growth in paint manufacturing firms. The R square of .661 indicated that 66.1% variations in dependent variable (return on sales and profit growth) is explained by independent variables (firm risk taking culture). That is risk-taking predicted 60% of dependent variables performance (return on sales & profit growth). Hence, firm risk taking culture had a significant effect on performance. The p= 0.000<.05 indicated that the dependent variables of performance (return on sales and profit growth) was determined by independent variables (risk-taking). F-Values statistics of 34.400, 33,300, 31300 and 34,200 showed that the overall equation is significant at p=0.000<0.05.
5. Discussions and Conclusion

Variety of findings from this study were based on field survey approach from questionnaire and secondary data elucidated from published annual financial reports in quoted paint manufacturing firms in Lagos state, Nigeria. Thus, the main objective of this study was to examine the effect of entrepreneurial orientation (EO) on performance in selected paint manufacturing firms in Lagos state. EO represented by four dimensions (Innovativeness, pro-activeness, risk-taking and competitive aggressiveness was analysed. Analytical result from regression analyses showed that there was a positive relation between the EO variables such as innovativeness, pro-activeness, risk-taking and competitive aggression on performance of sales and profit growth in paint manufacturing firms in Lagos state. These results were in line with the objective and a number of previous empirical studies, Lumpkin and Dess, (2001; 2006; Wiklund and Shepherd, (2003; 2005); Aktan, et.al., (2008); Oyedijo, 2012; Ngoze and Bwisa, 2014; Ukonu and Obi, 2017; Boohene, et al. 2012; Ngoze and Bwisa, 2014), which showed that there was a positive relationship and significant effect between EO and performance. The results of the finding were also in line with entrepreneurship and strategic management theoretical standpoint. The development work of Covin, et al. (2006); covin and wales (2012) and Weng and Lin (2012) focused on assessing and evaluating the impact of the EO on business performance. The contingency view and RBV theory of entrepreneurial orientation further described entrepreneurs having the ability to generate and combine different strategy considering the environmental risk in order to achieve performance.

In conclusion, this study had shown empirical evidences in support of the relationship between entrepreneurial orientation (EO) variables and performance (sales and profit level) of selected quoted paint manufacturing firms in Lagos state, Nigeria. It was also shown that there was a significant effect of EO variables and performance (sales and profit level) in selected paint manufacturing firms in Lagos state, Nigeria. The study had contributed to knowledge by employing secondary data to analysed separate effect of innovation as EO variables in the quoted paint manufacturing firms in Lagos state.
References


