

Entrepreneurial Orientation and Firm Profitability: Evidence from Lagos State Nigeria

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Abstract: Small and medium sized enterprises (SMEs) contribute largely to economic of Nigeria, but are faced with epileptic performance resulting into low market share, poor sales growth, and weak profitability. This paper examined the effect of entrepreneurial orientation (EO) on the profitability of SMEs in Lagos State, Nigeria. Survey research design was adopted. The target population was 4,535 SMEs in Lagos State. The population comprised SMEs in manufacturing, real estate, agricultural and services sectors in Ikeja, Badagry, Ikorodu, Lagos Island, and Epe of Lagos State. Cochran (1997) sample size formula was used to select sample size of 460 owner-managers. Multistage sampling technique was used in selecting the respondents. A structured questionnaire was adapted and validity established. Cronbach's alpha reliability coefficients for the constructs ranged from 0.79 to 0.95. Four hundred and sixty copies of the questionnaire were administered and 99% response rate was recorded. Data were analyzed using descriptive and inferential statistics. The findings revealed that proactiveness and risk taking had positive significant effect on profitability and competitive aggressiveness exhibited a negative significant effect on profitability, while autonomy and innovativeness were statistically insignificant. The paper concluded that EO has a significant effect on profitability of SMEs, and recommended that proactiveness and risk-taking are owners/managers' ingredients profitability.

Keywords: Entrepreneurial Orientation, SMEs, Profitability, Proactiveness, Innovativeness

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I. Introduction

Over time, the performance of small and medium sized enterprises (SMEs) has attracted the interest of scholars all over the world. However, these firms have experienced sub-optimal performance characterized by low market share, poor sales growth, weak profitability, which has rendered some of the SMEs less competitive and resulting into market failure. These prevalent challenges serve as the precedence for the high rate of closure of some of the SMEs without breaking even especially in developing nations. It is noteworthy, that these factors affect small and medium scale enterprises in developing and developed countries in varied degrees as a result of different context and environmental of operations. These seemingly unsatisfactory level of performance has contributed to the global inefficiencies of SMEs in the world and this can be traced to lack of entrepreneurial orientation of the SMEs.

In Africa, in the record of World Bank (2014) SMEs are faced with constant threat of failure and most of these enterprises do get fully blown into becoming large enterprises. Past studies indicated that SMEs sector in Kenya is characterized by high mortality rate (Keats *et al.*, 2018; Republic of Kenya RoK, 2013); some fail within the first few months of operation (Bowen, Morara & Mureithi, 2009), over 60% fail each year (Gachugo & Gichira, 2018) and most do not survive to their third anniversary (Magara, 2016). Management and entrepreneurship literature has engaged in conscientious reasoning on entrepreneurship orientation for the last two decades (Musawa & Ahmad, 2018; Wales, 2016) as a means of deepening insight in SMEs' failures.

In Nigeria, researchers such as Arisi-Nwugballa, Elom, Duru, Ehidihamhen, and Chijioke (2018); Bolarinwa and Okolocha (2016); Ibidunni, Ogunnaike and Abiodun, (2017); Otache and Mahmood (2016); Namusonge, Muturi, and Olaniran (2016); Oyelola, Ajiboshin, Raimi, Raheem and Igwe; Oladele (2013); Onyeizugbe (2016); and Oyeku, Oduyoye, Elemo, Akindoju, and Karimu (2014) have attributed the poor performance of SMEs to lack of innovativeness, risk taking, proactiveness, competitive aggressiveness and autonomy. Other challenges identified are lack of basic business knowledge, skills and attitude; high operating costs, marketing, and government policy (Anderson & Eshima, 2015; Ibidunni, Olokundun, Oke & Nwaomonoh, 2017). SMEs' performance thus needs proper investigation. The aforementioned have 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 neighboring West African countries. Similarly, Oyelola *et al.* (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. The closure can be attributed to low level of entrepreneurial orientation (Umaru & Obeleagu-Nzelibe, 2014).

Entrepreneurial orientation has been identified as a key determinant for a firm's prosperity and it has been related to high firm performance (Adams, Bodas, & Fontana, 2019; Anderson & Eshima 2013; Brownhilder & Johan 2017; Covin & Wales, 2012; Gupta & Acharya, 2018; (Hughes, Eggers, Kraus, & Hughes, 2015; Mahmood & Hanafi, 2013; Shu, De-Clercq, Zhou, & Liu, 2019). Several studies in Nigeria have acknowledged entrepreneurial Orientation (EO) as one of the few areas in entrepreneurship research where there is intense growth (Alarape, 2014; Mienpre & Onuoha, 2018; Nigerian Stock Exchange, NSE, 2014; Oyelola et al., 2017; Oyeku et al., 2014). Other studies (Alegre & Chiva, 2013; Bosire & Nzaramba, 2014; Boukis et al., 2017; Dada & Watson 2013; Engelen, Gupta, Strenger, & Brethel, 2012; Fatoki, 2012a; Fatoki, 2012b; Filser & Eggers 2014; Heng, Lim & Lim, 2014; Hakala, 2011; Huang, Wang, Chen, and Yien, 2011; Hsiung, & Tsai, 2017; Kim 2018; Masa'deh, Al-Henzab, Tarhini & Obeidat, 2018; Mwangi & Ngugi, 2014; Mwaura, Gathenya, & Kihoro, 2015; Otieno, Bwisa, & Kihoro, 2012; Soininen, Kaisu, Helena, Pasi, & Sussane, 2013 & Wales, 2016; Zainol, Osman, Shokory, Samsudin, & Hashim, 2018) have investigated the EO– performance relationship in Africa, with emphasis on a coherent research linking of the five EO dimensions (innovativeness, proactiveness, risk-taking, autonomy and competitive aggressiveness) with SMEs performance. However, there are only few studies establishing the EO–profitability relationship, as literature reveals a concentration of the EO–profitability relationship discourse from the three dimensions of innovativeness, proactiveness and risk-taking propensity only, leaving out autonomy and competitive aggressiveness, and a gap, as identified by Ibrahim and Mahmood (2016) and Arisi-Nwugballa, Elom, and Onyeizugbe (2016) from the Nigerian context. Evidence has proved that on the average, 30% of every new enterprise failed at the end of their second year and 50-60% cannot manage to survive to the end of the seventh year (Aris, 2012; Etuk, Etuk, & Baghebo, 2014), because they are frequently under pressure of different challenges. Small and Medium Enterprises (SMEs) in Lagos State are overwhelmed with problems such as lack of innovativeness, pro-activeness, risk taking propensity, autonomy, and competitive aggressiveness leading to high failure rate and low profitability (Duru et al. 2017; Arisi-Nwugballa et al., 2016). Anchored on empirical gaps and cursory observations, this paper examined the effect entrepreneurial orientation on profitability of SMEs in Lagos State Nigeria.

II. Literature Review

Entrepreneurial Orientation

The concept of entrepreneurial orientation (EO) has emerged as an important concept in the survival of SMEs over the past two decades (Etim, Adabu, & Ogar, 2017). Entrepreneurial orientation has been conceptualized as the process and decision making activities used by entrepreneurs that lead to entry and support of business activities and as the strategy- making processes that provide organizations with a basis for entrepreneurial decisions and actions (Mwangi & Ngugi, 2014). As defined by Etim, Adabu, and Ogar (2017), entrepreneurial orientation as a set of decision-making styles, processes, practices, rules, and norms according to which a firm makes decisions to enhance its innovativeness, pro-activeness and risk taking propensity. It has also been argued that entrepreneurial orientation is the willingness of SMEs to innovate, search for risks, take self-directed actions, and be more proactive and aggressive than competitors towards new market place opportunities according to Omisakin, Nakhid, Littrell, and Verbitsky (2016). Brettel, Chomik and Flatten (2015) asserted that EO entails the discovery, evaluation, and exploitation of opportunities to introduce new products or services to the market while Asad, Sharif and Hafeez (2016) defined EO as the rules and norms used for decision making.

Entrepreneurial orientated SMEs can undertake uncertain and risky investments and proactively reach markets ahead of competitors thereby realizing high returns and is an important phenomenon that plays a crucial role in aligning businesses to market demands and performance (Okeyo, Semrau, Ambos and Kraus (2016)) defined EO as the organizational decision-making inclination favouring and enhancing entrepreneurial activities and performance. Pratono and Mahmood (2015) view EO as the decision-making practices and processes employed to act in an entrepreneurial way at the organizational level. Montoya, Martins, and Ceballos, (2017) view EO as the entrepreneurial attitude and the spirit of looking for new business opportunities. To capture the firm-level entrepreneurial attitude, Miller (1983) and Covin and Slevin (1991) developed the entrepreneurial orientation (EO) construct, whereby firms with a high degree of EO are regarded as having a set of distinct but related attitudes that have the qualities of innovativeness, proactiveness, and risk taking (Covin & Wales 2012).

Alarape (2013) viewed EO as a behavioral construct at firm level that is closely linked to strategic management and explains the processes, practices, and decision activities that lead to new entry in the quest of exploiting opportunities in the marketplace or shape its environment is a three-dimensional construct of (1) innovativeness, (2) risk-taking, and (3) proactiveness. This is in line with the studies (Anlesinya, Eshun, & Bonuedi, 2015; Anderson et al., 2009; Covin & Miller, 2014; Fabian, Francisco, Conejo and Lawrence, Cunningham 2018; Sciascia et al., 2013) on the relationship between EO and performance of SMEs. Similarly,

Lomberg, Urbig, Stöckmann, Marino, and Dickson, (2016) conceptualized the three focal dimensions of entrepreneurial orientation as innovativeness, risk-taking and proactiveness, stressing that an entrepreneurial firm is one that engages in product market innovation, undertakes somewhat risky ventures, and is first to come up with 'proactive' innovations, beating competitors to the punch. These three dimensions have since been used consistently in the scholarship (Covin & Wales, 2012; Covin & Miller, 2014). The model has been described as factors which characterizes SME's entrepreneurial behaviour to survive.

Mamun et al (2017) assumed that the first entrepreneurial behaviour for SME's to survive is innovativeness. Mamun et al (2017) further described innovativeness as the predisposition of SME's to engage in creativity through technological leadership. DeepaBabu and Manalel (2016) acknowledge risk taking as a bold strategic management actions taking by SME's by venturing into the unknown market environment by committing significant resources to ensure growth, sustainability and survival. Faizul, Hirobumi and Tanaka (2010) assumed that proactive behaviour exhibited by SME's is capable of stimulating growth and ensure the survival of SME's. Faizul et al (2010) described proactiveness as an opportunity forward-looking competitive aggressiveness perspective characterized by SME's acting in anticipation of future demand.

From the different definitions of entrepreneurial orientation given by various scholars, it is evident that there is no clear consensus or difference existing in the definition of constructs. George and Marino (2011) and Serna, Martines, Martines (2016) however argued that when there is no clear consensus or difference existing in the definition of constructs, it becomes hard to develop or enrich knowledge and this is true of the EO construct. This is evidenced by scholars' disagreement with regards to the interdependence of the EO construct (Covin & Miller, 2014; Lumpkin & Dess, 2001; Kropp, Lindsay & Shoham, 2006; Mwaura, Gathanya & Kihoro, 2015) the nature of EO dimensions (De-Clercq, Dimov & Thongpapanl, 2015) the theoretical relationship between the construct and its antecedent and consequent construct (George, 2011), the dimensionality of EO (Fadda, 2018); Karacaoglu et al. (2013) and the definition of the construct (Covin & Lumpkin, 2011). In view of the above, this study adopted a multi-dimensional definition of EO that considered all the five dimensions (proactiveness, innovativeness, risk taking propensity, autonomy and competitive aggressiveness) individually which is most commonly associated with the work of Lumpkin and Dess (2001), within which EO exists as a set of independent dimensions, with each dimension having its own effect on firm performance (Covin & Lumpkin, 2011). One of the most widely studied issues in EO is its correlation with firm performance in both the conceptual (e.g., Covin & Wales 2012) and empirical aspects (e.g. Anderson & Eshima 2013; Moreno & Casillas 2008; Van Doorn et al., 2013 & Schepers et al., 2014).

Proactiveness

Pro-activeness is the ability to foresee before the actual occurrence of events and taking action for problems that are likely to occur in the future (Arbaugh, Cox & Camp, 2009). It can also be said that it is related to taking the first step ahead of others (DeepaBabu & Manalel, 2016). Ambad and Wahab (2013) view proactiveness as an opportunity-seeking, forward-looking perspective involving introducing new products or services ahead of the competition and acting in anticipation of future demand to create change and shape the environment. The characteristics of a proactive enterprise involve aggressiveness and unconventional tactics towards rival enterprises in the same market segment, such enterprises shape their environments by actively seeking and exploiting opportunities. Mwaura, et al. (2015) asserted that proactive firms introduce new products, technologies, administrative techniques to shape their environment and not react to it.

Proactiveness defines the characteristics of entrepreneurial actions to anticipate and pursue future opportunities in terms of products, technologies, markets and consumer demand Basso and Fayolle, (2009). The characteristics of a proactive enterprise involve aggressiveness and unconventional tactics towards rival enterprises in the same market segment, such enterprises shape their environments by actively seeking and exploiting opportunities. Proactiveness as a dimension of EO refers to the will and foresight to seize new opportunities (Olawoye, 2016). The concepts of innovativeness and risk-taking are related to pro-activeness because to innovate and take risks indeed requires no more than the intention to leave the comfort zone, cause change, and drive business growth through the launch of a new product or process (Arshad et al. 2014; Huiling et al., 2018). The concept of proactiveness is also defined as the propensity of a SME to anticipate and act on future requirements in the market place in order to create a first mover advantage before competition arises (Kreiser & Davis, 2010).

Innovativeness

Innovation is regarded as a key business process that organizations are using to achieve competitive advantage. Innovations are currently a fundamental prerequisite of competitiveness (Bloch & Bhattacharya, 2016; Ariguzo, Abimbola, & Egwakhe, 2018). Innovativeness involves the tendency to engage in and support new ideas, novelty, experimentation and creative processes (Mohammad, Armanu, & Achmad, 2013). Successful companies are currently the ones that implements innovative strategies, invests in research, development and innovations. The basic precondition for the creation and use of innovation in the enterprise is a

well formulated and implemented innovative strategy. Innovativeness is a central component in an entrepreneurial orientation as posited by Presutti and Odorici (2018). Lumpkin and Dess (1996) credited Schumpeter with being amongst the first to emphasize the role of innovation in the entrepreneurial process, in the form of a process of creative destruction, by which wealth was created when existing market structures were disrupted by the introduction of new goods or services reallocating resources from existing firms to new firms and growth.

However alertness to and investment in new ways to create and capture value are key characteristics of businesses that pursue entrepreneurial strategy (Kuckertz, Kollmann, Krell, & Stöckmann, 2017). Drucker (2007) introduced the concept of knowledge-based innovation as the super star of entrepreneurship. Such innovations could be scientific, technical or social in nature. Knowledge Based Innovation require careful analysis of all the necessary factors and clear focus on the strategic position which entails developing systems, market focus and occupying the strategic position for effective business performance. According to Balla et al. (2018) and DeepaBabu and Manale (2016) innovations are three types; technological, product, and administrative innovativeness. Likewise, innovation in businesses can be classified into; product market innovation and technological innovation Krishna et al. (2018). Innovativeness in this case refers to provision of solutions to both routine and non-routine problems. It is the firm's ability to engage in new ideas or thinking creatively that an idea can generate future economic benefits to the firm (Kihara, Bwisa & Kihoro, 2016).

Risk Taking Propensity

Risk taking relates to a business readiness to pursue opportunities despite uncertainty around the eventual success (Deakins & Freel, 2012). It entails acting boldly without knowing the consequences. Risk taking, may also be viewed as a firm's management knowingly devoting huge amount of resources to projects in anticipation of high returns but may also entail a possibility of higher failure (Mahmoud & Hanafi, 2013). The psychological theories of locus of control and need for achievement entail a moderate level of risk-taking propensity (Deakins & Freel, 2012). Callaghan (2009) has also been associated with higher performance by individuals. This might predict that a moderate level of risk-taking propensity would be associated with higher levels of performance. However, in terms of different contexts, the effects of the dimensions of Entrepreneurial Orientation, including risk taking, were expected to differ in terms of their effect on performance according to the specific context.

Lumpkin and Dess (1996) identified three types of risks that businesses face in pursuing entrepreneurial activities; business risks associated with entering new markets or supporting unproven technologies; financial risks relating to the financial exposure required and the risk/return profile of the new venture. It may include borrowing heavily or committing large proportions of their resources and Personal Risks referring to the reputation effects of success or failure in the business. Success to the business entails giving the entrepreneur considerable affect over the future direction of the firm and failure can have the opposite effects. Risk taking is commonly associated with entrepreneurial behaviour and the general successful entrepreneurs are risk takers. Callaghan (2009) argued that entrepreneurs are not typically risk seekers rather like any other rational individuals, they take steps to minimize risks, and this may involve developing strategies that entail a higher tolerance for risk, but the calculation of risks.

Autonomy

Autonomy refers to the ability to make decisions and to proceed with independent action by an individual or a team directed at bringing about a new venture, a business concept or vision and seeing it to fruition, without any restrictions from the organization (Lumpkin & Dess, 1996; Lumpkin, Coglisser, & Schneider, 2009; Rauch, Wiklund, Frese, & Lumpkin, 2009; Ismail, 2014). Autonomy refers to independent action in terms of "bringing forth an idea or a vision and carrying it through to completion", including the concept of free and independent action and decisions taken (Lumpkin & Dess, 2011). Entrepreneurs are associated with more of a degree of freedom in combining and organizing resources and the success of a firm dependent on the level of autonomy exhibited by the entrepreneurs (Bird, Schjoedt & Baum, 2012).

With reference to entrepreneurship in the context of strategy formulation, two classification of autonomy are referred to by scholars (Lumpkin & Dess, 2011). The first type of autonomy refers to decisive decision making where a vision is driven to implementation through individual leadership while the second type of autonomy refers to the individual autonomy that enables entrepreneurial activities and decision making at lower levels of an enterprise. These types of autonomy are consistent with the concept of entrepreneurial orientation, according to Lumpkin & Dess (2011).

Autonomy which refers to the ability and will to be self-directed in the pursuit of opportunities is an entrepreneurial act (Lumpkin & Dess, 2011). According to Ball, Fatiha and Ibrahima-Samba (2018) autonomy in EO flourishes when independent minded people leave comfortable positions to pursue novel ideas. Autonomy is also a significant factor for improving performance in existing firms. Evidence from past research indicates that autonomy in firms may functionally depend on firm size, management style, or ownership. Lumpkin and

Dess (2011) argue that where the owner-manager is the decision maker, the right of ownership determines the level of autonomy.

Autonomy in the EO context is clearly a vital aspect of entrepreneurial value creation and central to the notion of strategic entrepreneurship. Autonomy may not be an issue among independently owned and managed firms, because such founders are already acting autonomously (Lumpkin, 2009). Therefore, it can be explained that autonomy can empower organizational members the freedom and flexibility to establish and enact entrepreneurial initiatives. It affords a team (or individual) not to only solve the problems, but to actually define the problem and the goals that will be met in order to solve that problem. In the framework of EO, therefore, autonomy is crucial to the processes of leveraging a firms' current strengths, identifying opportunities that are beyond the organizations current capabilities and supporting the development of new ventures and improved business practices.

Competitive Aggressiveness

Competitive aggressiveness refers to a firm's propensity to directly and intensively challenge its competitors to achieve entry or improve situation that is to outperform industry rivals (DeepaBabu & Manalel, 2016). Competitive aggressiveness is defined as a SME's capacity to outweigh and be a head of rivals at grasping every opportunity (Ogunsiji & Kayode, 2010). These researchers (DeepaBabu & Manalel, 2016; Ogunsiji & Kayode, 2010) further see competitive aggressiveness as the freedom to work on one's ideas and initiatives, while competitive aggressiveness has been considered and examined as an attribute of pro-activeness (Razak, 2011). Le Roux and Bengesi (2014) pointed out that given that SMEs operate in a fast-changing and intense worldwide competitive environment, competitive aggressiveness is required to maintain a competitive market posture given that consumers are exposed to a diverse range of products and services resulting in changing consumer tastes and preferences. From the foregoing, competitive aggressiveness can be seen as a driving mechanism to withstand the fierce competition and respond appropriately to existing and emerging competitive threats.

Competitive aggressiveness refers to the efforts a business makes to outperform its rivals. It is the firm's propensity to directly and intensely challenge its competitors to achieve entry or improve position: to outperform industry rivals in the marketplace, this is characterized by responsiveness in terms of confrontation or reactive action (Deakins & Freel, 2012). Competitive aggression as a dimension of an entrepreneurial orientation refers to "the type of intensity and head-to-head posturing that new entrants often need to compete with existing rivals". In contrast to pro-activeness, which relates to market opportunities, Competitive aggressiveness refers to how enterprises "relate to competitors" and "respond to trends and demand that already exist in the marketplace" with regard to competitors. (Messersmith & Wales, 2013;Ejdys, 2016).

Lumpkin and Dess (1996) stated that, Competitive aggressiveness as an important dimension of an Entrepreneurial Orientation. Miller (1983), however, considers only pro-activeness, innovativeness, and risk taking as the only dimensions of an entrepreneurial orientation. Lumpkin and Dess (1996) developed the construct further from Miller's (1983) original dimensions of EO, by incorporating competitive aggressiveness and autonomy. In terms of the original dimensions of entrepreneurial orientation, an entrepreneurial firm is one that engages in product-market innovation, undertakes somewhat risky ventures, and is first to come up with "proactive "innovations, beating competitors to the punch. A non-entrepreneurial firm is one that innovates very little, is highly risk averse, and imitates the moves of competitors instead of leading the way.

Profitability

Profitability is the ability of a business to earn a profit. As said by Isik and Tasgin, (2017) in industrial economics, business organization and finance, the size is considered to be one of the most essential characteristics of firms in explaining profitability. A profit is what is left of the revenue a business generates after it pays all expenses directly related to the generation of the revenue, such as producing a product, and other expenses related to the conduct of the business activities (Igwe, 2016). Besides the possible choices of focusing on small, medium, or large sized family SMEs, and the choice of paying attention to management, control, ownership or a combination of those, a scholar must also select performance measures for his research, when comparing family businesses to nonfamily businesses. In this field, the most widely used measures are Tobin's q and return on assets and/or equity (Isik & Tasgin 2017).

Ambad and Wahab, 2013; Mule, Mukras, and Nzioka (2015) argue that to ensure survival in the industry, profitability is a key issue for every profit-oriented firm and maximizing it is the goal of the firm. So to achieve higher profitability, it is imperative for every firm to have its own strategy that will fit into the current rapidly changing business environment. Shareholders value growth in EBIT or EBITDA, because that is what generates firm enterprise value and allows them to earn a return on their investment. A company's net profit is the revenue after all the expenses related to the manufacture, production and selling of products are deducted(Murgor, 2014). It goes directly to the owners of a company or to the shareholders, or it is reinvested in the company. Profit, for any company, is the primary goal, and with a company that does not initially have

investors or financing, profit may be the corporation's only capital and the absence of sufficient capital or the financial resources necessary to sustain and run a company, will lead to an imminent business failure.

Entrepreneurial Orientation (EO) and Profitability

There are several past empirical studies on entrepreneurial orientation that show mixed empirical results by different scholars (Jenssen & Nybakk, 2016; Jenssen & Åsheim, 2017; Lages et al., 2016; Miller, 2014). Entrepreneurial orientation is an important factor for the competitive advantage and profitability of a firm (Miller, 2014). Wambugu, Gichira and Wanjau (2016) in a study of influence of entrepreneurial orientation on firm profitability performance of Kenya's agro processing small and medium, revealed that entrepreneurial orientation had a positive and statistically significant influence on firm profitability, although the study looked at entrepreneurial orientation as a uni-dimensional construct in predicting firm performance. Anlesinya, Eshun, and Bonuedi (2015) found a significant positive effect of proactiveness and risk-taking on profitability but no relationship between entrepreneurial innovativeness and profitability of micro enterprises that operate in the retail sector in Ghana. Studies of Rubera and Kirca (2012) also observed that firm innovativeness affects financial position from the profitability context.

The concept of entrepreneurial orientation has received much attention in empirical research in different disciplines and can be described along different dimensions such as newness or novelty and is also classified on the direction it focuses such as the product, market, process and/or business system (Mukutu, 2017). Empirical research on the link between innovation and firm performance and development has shown evidence that innovation is a significant part for organisation long-term survival. Moreover, several studies have argued that businesses that are innovative enjoy more growth over others (Nybakk & Jenssen, 2012).

The theory of entrepreneurship innovation was propounded by Joseph Schumpeter (1949). According to him, entrepreneurs help the process of development in an economy; they are the people who are innovative, creative, and with foresight in a given community. Schumpeter added that innovation occurs when the entrepreneur introduces a new product or a new production system, opens a new market, discovers a new source of raw materials or introduces a new organization into the industry. Innovation Theory stated that entrepreneurship is about combining resources in a new way such as introducing new products, new method of production, and identifying new source of raw materials/inputs and setting a new standard, either in the market or in the industry that alters the equilibrium in the economic system. Aloulou and Fayolle (2005) asserted that entrepreneurship is about combining resources in new ways (such as the introduction of new products with higher quality, with new methods of production, breakthroughs in new market, conquests of new sources of supply of raw materials and reorganization of a new sector) that disrupts the market equilibrium in economic systems. Esbach (2009) claimed that despite the huge interest in the subject of entrepreneurship since its inception, a definition of entrepreneurship is hard to pin down because of the different descriptions used by a multitude of authors. In spite of the diverse definitions of entrepreneurship adopted by various authors, this researcher agrees with the essence that entrepreneurship is about wealth creation.

III. Methodological review

This paper employed survey research design to examine the interaction of entrepreneurial orientation and SME performance in Lagos State, Nigeria using a population size of four thousand, five hundred and thirty-five (4,535) owner/managers of SMEs operating in Lagos State and registered with small and medium enterprises development agency of Nigeria (SMEDAN) as it was in the record of Corporate Affairs Commission (CAC) Nigeria as at 2014. The sample size of 364 was used as determined through Cochran formula. Cochran (1997) postulated that, the continuous component of sample size formula is the estimation of variance in the primary variables of interest in the study. A proportionality (P) value was taken to be 0.5 and risk factor α was taken to be 5% (0.05).

The sample size was 354 from a population of 4535. The survey research design was cross-sectional in nature and the adoption of this design was influenced by the research problem and its corresponding research question. The choice of survey research design was further considered appropriate because according to Zikmund, Babin, Carr and Griffin, (2012), it attempts to understand a particular population at a particular time and to ensure that the amount of uncertainty characterizing decision situation is clearly defined. Also it allowed the researcher to explain the association between the dependent and independent variables quantitatively. This design was used based on the work of Makinde (2015) and Asikhia (2010) and also consistent with the study of Adisa, Adeoye & Okunbanjo (2016); Allen (2011); Egwakhe (2014); Egwakhe and Kabasha (2016); Lee (2010), which engender detailed and reliable explanations of the relationship among variables. A 30% non-response rate as asserted by Israel, 2013 was allowed amounting to 106 and making the sample size to be 460.

Before administration of the questionnaire to the respondents, a pilot test with a small group of respondents was carried out in order to ascertain the suitability and applicability of the designed questionnaire.

The pilot study was conducted to ensure consistency and relevance of the research instrument. Pre-test was carried out on forty-six (46) randomly selected owners/managers of SMEs in Ogun State representing 10% of the total sample size according to Connelly (2008). The list and names of the selected SMEs are in the appendix. These SMEs were not part of the sample businesses for the main study. Out of the forty-six sampled owners/managers of SMEs for the pilot study, forty-three (43) copies representing 93.4% of the questionnaires were returned, filled accordingly and usable.

Model Specification

$$Y = f(X)^n$$

$$X=(x_1, x_2, x_3, x_4, x_5)$$

$$Y_i = \beta_0 + \beta_1x_1 + \beta_2x_2 + \beta_3x_3 + \beta_4x_4 + \beta_5x_5 + e_i \dots\dots\dots (1)$$

Where:

X₁ = innovativeness (IN)

X₂ = proactiveness (PR)

X₃= risk taking propensity (RT)

X₄= autonomy (AU)

X₅= competitive aggressiveness (CG)

Collection of data was done by using primary source of data through administration of structured questionnaire. Quantitative data collected through the copies of the questionnaire were analysed using descriptive and inferential statistics. Statistical Package for Social Sciences SPSS 21.0 was used to analyse. The ethical aspect any research work was adhered to in order to prevent manipulation, falsification, and undue stress to the respondents.

IV. Result And Discussion Of Findings

To assess the effect of entrepreneurial orientation on profitability, 460 copies of questionnaire were distributed and 457 copies were retrieved and rightly filled. This represents a response rate of about ninety-nine percent, which was judged to be scientifically suitable. Table 1 presents the results of the analysis with the adjusted R² 0.386 ($F_{(5, 451)} = 58.380, p < 0.05$) indicated that entrepreneurial orientation components only explained 38.6% of the changes in profitability of the SMEs in Lagos State. In addition, the model met fitness and robustness criteria for the analysis. Table 1 shows the multiple regression analysis results for the influence of entrepreneurial orientation components (innovativeness, proactiveness, risk taking, autonomy and competitive aggressiveness) on profitability of SMEs in Lagos State, Nigeria. The results revealed that proactiveness ($\beta = 0.673, t = 11.093, p < 0.05$) and risk taking ($\beta = 0.751, t = 11.639, p < 0.05$) have significant influence on profitability of SMEs in Lagos State. Also, there was a negative and significant influence of competitive aggressiveness ($\beta = -0.420, t = -8.387, p < 0.05$) on profitability of SMEs in Lagos State, Nigeria. On the other hand, innovativeness had an insignificant negative effect ($\beta = -0.040, t = -0.826, p > 0.05$) on profitability of SMEs in Lagos State, Nigeria. While autonomy had a positive but insignificant effect on profitability of SMEs in Lagos State, Nigeria, which implies that the SME's in Lagos state should pay a closer attention to proactiveness, risk taking propensity and competitive aggressiveness.

Table 1: Effect of Entrepreneurial orientation components on profitability of SMEs in Lagos State

N	Model	β	Sig.	T	ANOVA (Sig.)	R	Adjusted R ²	F (df)
457	Constant	-0.853	0.007	-2.717	0.000 ^b	0.627	0.386	58.380 (5,451)
	Innovativeness	-0.040	0.409	-0.826				
	Proactiveness	0.673	0.000	11.093				
	Risk Taking Propensity	0.751	0.000	11.639				
	Autonomy	0.035	0.478	0.710				
	Competitive Aggressiveness	-0.420	0.000	-8.387				
Predictors: (Constant), Competitive Aggressiveness, Proactiveness, Autonomy, Innovativeness, Risk Taking Propensity								
Dependent Variable: Profitability								

Source: Field Survey, 2019.

The regression model shows that holding entrepreneurial orientation dimensions to a constant zero, profitability would be -0.853 implying that without entrepreneurial orientation dimensions, profitability of the SMEs in Lagos State, Nigeria would be negative showing a deficit. The results of the multiple regression analysis indicate that when proactiveness, risk taking and autonomy are improved by one unit profit will be positively affected with an increase of 0.673, 0.751 and 0.035 respectively while a unit improvement in innovation and competitive aggressiveness will reduce the profit by 0.04 and 0.42 respectively. The result shows an overall statistical significance with $p < 0.05$ which implies that entrepreneurial orientation components are important determinants of profitability of SMEs in Lagos State, Nigeria. The result suggests that for SMEs in Lagos State to be profitable, they have to implement an entrepreneurial orientation culture. Therefore, the null hypothesis (H_{01}) which states that entrepreneurial orientation components have no significant influence on profitability of SMEs in Lagos State, Nigeria was rejected.

Discussion

The paper investigated the effect of entrepreneurial orientation components on profitability of SMEs in Lagos State, Nigeria. The findings revealed proactiveness ($\beta = 0.673, t = 11.093, p < 0.05$) and risk taking ($\beta = 0.751, t = 11.639, p < 0.05$) have positive significant influence on profitability of SMEs in Lagos State, Nigeria. Although, competitive aggressiveness also had a significant effect on profitability, however, the effect was negative ($\beta = -0.420, t = -8.387, p < 0.05$) while autonomy ($\beta = 0.035, t = 0.710, p < 0.05$) and innovativeness ($\beta = -0.040, t = -0.826, p < 0.05$) were statistically insignificant. This implies that proactiveness and risk taking are important determinants of profitability in SMEs in Lagos State, Nigeria. Ability of SMEs to take risks and respond proactively to the dynamism in the business environment is a step forward in making and improving profitability of SMEs in Lagos State, Nigeria.

In support of the findings is Brettel, Chomik and Flatten (2015), who asserted that EO entails the discovery, evaluation, and exploitation of opportunities to introduce new products or services to the market which directly leads to increased revenue for firms. Similarly, Lomberg, Urbig, Stöckmann, Marino, and Dickson, (2016), conceptualized the three focal dimensions of entrepreneurial orientation as innovativeness, risk-taking and proactiveness, stressing that an entrepreneurial firm is one that engages in product market innovation, undertakes somewhat risky ventures, and is first to come up with ‘proactive’ innovations, beating competitors to the punch and make more profit. A strong proactive behavior gives SMEs the ability to anticipate needs in the market place and the capability to anticipate competitor’s needs (Eggers, Kraus, Hughes, Laraway & Snyerski, 2013). In the same vein, Deakins and Freel (2012) assert that risk taking is commonly associated with entrepreneurial behaviour and the general successful entrepreneurs are risk takers. Risk taking relates to a business readiness to pursue opportunities despite uncertainty around the eventual success (Deakins & Freel, 2012). It entails acting boldly without knowing the consequences. It is when the firm knowingly devotes its resources to projects with chances of high returns but that may also entail a possibility of higher failure (Mahmoud & Hanafi, 2013).

In congruence with the findings of the present study, Anlesinya, Eshun, and Bonuedi (2015) found a significant positive effect of proactiveness and risk-taking dimensions of entrepreneurial orientation on profitability but no relationship between entrepreneurial innovativeness and profitability of micro enterprises that operate in the retail sector in Ghana. The findings of this study is in consonance with that of Wambugu, Gichira and Wanjau (2016) who found that entrepreneurial orientation has a positive and statistically significant influence on firm profitability. Similarly, Miller (2014) in his study revealed that entrepreneurial orientation has a positive and significant effect on firm profitability. The author asserted further that entrepreneurial risk taking ability and responsiveness are important factors for the competitive advantage and profitability of a firm. Likewise, the study of Rubera and Kirca (2012) established that entrepreneurial orientation dimensions affects financial position from the profitability context.

Credence is added to Riga (2016) with finding that corporate entrepreneurship impact innovation and business performance but found proactiveness and risk-taking have considerable influence performance. Also, Saunila (2017) investigated the link between innovation strategy and organization adaptability of Hotels in Port Harcourt confirm that there is a weak positive significant relationship between innovation strategy and organizational survival. However, risk taking was taken as an important factor for making profit. Saunila (2017) asserted further that entrepreneurial orientation bears a positive and significant influence on organizational adaptability which is a prerequisite in achieving profitability. The findings also corroborated several authors such as Kalay and Lynn (2014), Ejdy (2016), Asayehgn, Iglesias, Triomphe, Pedelahre and Temple (2017) that there exist a positive and significant interaction between entrepreneurial orientation dimensions and profitability of organizations. In support of the positive finding between entrepreneurial orientation and market share, Nthini (2013) argued that visionary companies are those that aggregate control and sustainability practices to their management indicators through entrepreneurial dimensions such as risk taking and proactiveness, thereby stimulating entrepreneurial growth and profitability. Based on past findings and results of this study, it can be concluded that entrepreneurial orientation components have a significant effect on profitability of SMEs in Lagos State, Nigeria.

V. Conclusion

The paper concluded that entrepreneurial orientation has a significant effect on performance of SMEs in Lagos State, Nigeria. However, proactiveness, risk taking propensity, and competitive aggressiveness have significant effect on profitability. Hence, recommends that managers and owners of SMEs should be proactive in responding to the ever changing customer demands. Further, managers of SMEs should not be afraid of taking risks. However, managers should only take calculated risks as this would ensure achieving profitability. Based on the negative and significant effect observed between competitive aggressiveness and profitability, this paper recommends SMEs should focus on selective investment portfolios and rethink too much attention to aggressive competition. As such, future studies should consider other dimensions of performance such operational efficiency, customer satisfaction, employee satisfaction, employee productivity, service quality, development of new products or services, brand loyalty among others to investigate the interaction between entrepreneurial orientation, managerial roles and SME performance.

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