

## **ENTREPRENEURIAL ORIENTATION DIMENSIONS AND PROFITABILITY NEXUS: EVIDENCE FROM MICRO ENTERPRISES IN THE RETAIL SECTOR IN A DEVELOPING COUNTRY**

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**ABSTRACT:** *This study examined the relationship between entrepreneurial orientation dimensions (proactivity, risk-taking and innovation) and profitability of micro enterprises in the retail sector in a developing country. The data for the study were obtained from micro enterprise owners who operate retail businesses in Madina-Accra in Ghana. The study adopted a cross-sectional survey design, and employed quantitative technique in the collection and analysis of the data. The researchers used convenient and purposive sampling techniques to select 110 research participants for the study. The study employed descriptive statistics, Pearson's correlation and hierarchical regression to analyse the data. The study found a significant positive effect of proactiveness and risk-taking on profitability of micro enterprises that operate in the retail sector in Ghana. However, no relationship was found between entrepreneurial innovativeness and profitability. The implications of these findings and recommendations for research, practice and practice were also discussed.*

**KEYWORDS:** Entrepreneurial Orientation, Profitability, Micro Enterprises, Retail Sector, Developing Country

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## **INTRODUCTION**

Micro enterprises or firms make significant economic contributions in the growth of many countries across the globe. Their activities are a source of new employment and impact significantly on economic development (Zulkifli & Rosli, 2012; Lukes & Laguna, 2010). Indeed, these significant contributions to economic development, job creation, income generation, and reduction in poverty by micro enterprises have been extensively documented (ILO, 2007). The SMEs Sector in Ghana is estimated to be made up of 70% of all industrial establishments. They contribute about 22% to GDP and account for about 92% of businesses in Ghana. They also absorb more than 60% of employed the labour force with majority in rural areas (GLSS-3, 2002).

However, some researchers are of the view that Micro enterprises in Ghana have not performed creditably well and have not also played expected significant roles in the economic growth of Ghana (Oppong, Owiredo & Churchill, 2014). In the views of these researchers, it is the reason why Governments have stepped up efforts to promote the development of micro and small enterprises through increased incentive schemes including enhanced “budgetary allocation for technical assistance programmes as well as establishment of new lending schemes and credit institutions such as microfinance and small loans centre (MASLOC) and World Bank-assisted small-scale enterprises loan scheme (SMES)”.

According to Aktan and Bulut (2008) and Chen et al. (2008), today's firm managers are faced with rapidly changing and swift increases in competitive environment, of which micro

enterprises are of no exception. Similarly, Zulkifli and Rosli (2012) posit that micro enterprises are facing more and more pressure from the marketplace and in order to cope with these challenges, an entrepreneurial approach to strategy making may be vital for organisational success. This is also emphasized by Bhardwaj, Agrawal and Momaya (2007) that many firms, in their effort to cope with challenges in their business environment, are increasingly turning to entrepreneurship as a means of innovation, growth and strategic renewal.

Research findings showed that EO generally has a positive effect on business performance in the United States, Europe and other developed countries (see Karacaoglu, Bayrakdaroglu & San, 2013; Kraus, Rigterring, Hughes & Hosman, 2012; Kaya & Agca, 2009). However, several studies such as Frank, Kessler and Fink (2010), Wiklund and Shepherd (2005) and Kemelgor (2002) show that the main effect is context-sensitive. For example, in their conclusion, Frank et al. (2010) raise doubts as to whether the findings of these studies can be generalized. More so, various studies have examined the influence of the dimensions of EO on profitability in large established business organisations (Awang, Khalid, Yusof, Kassim, Ismail, Zain & Madar, 2009; Marino & Weaver, 2002), and in diverse segments of the economy, but those of micro enterprises are still lacking (Boohene, Marfo-Yiadom & Yeboah, 2012), especially in the retail sector in most developing countries like Ghana.

In addition, the few available studies on the relationship between micro enterprises and their profitability were mostly conducted in foreign countries with little focus on Ghana (see Fatoki, 2014; Matchaba-Hove & Vambe, 2014; Kraus et al., 2012; Muthee-Mwangi & Ngugi, 2014). These studies overwhelmingly found positive results. However, some (see Matchaba-Hove & Vambe, 2014) concluded that the findings are limited to only small businesses in these countries, and generalising the results to all small businesses in other countries may not be appropriate.

So far the only study that focused on Ghana in terms of EO and micro enterprises' performance available to the researchers was by Boohene et al., (2012). Their study however, did not focus on micro enterprises in the retail sector but on a professional service sector. These limited research results according to Frank et al. (2010), do not permit generalizations on the practical importance of EO and its contributions to the profit performance of micro enterprises. Meanwhile, Churchill (2013) maintains that micro enterprises could be more readily used to achieve industrial dispersal and regional balance in economic development. These suggest that there is a huge gap generally in the literature with regards to the relationship between micro enterprises' profitability and EO in Ghana, and more especially in the retail sector.

This is in line with Chye (2012:77) who argues that there are 'inadequate studies on the impact of the individual dimensions of entrepreneurial orientation on small business performance'. It must be noted that there is a reason to believe that the relationship between EO and profitability may be especially high among micro enterprises. It is implied that smallness fosters flexibility particularly flexibility in terms of location and innovation (Stam & Elfering, 2008). It is against this backdrop that the researchers sought to examine dimensions of EO and profitability nexus with focus on micro enterprises in the retail sector in Ghana with evidence from Maina-Accra.

The rest of the paper presented the research hypothesis, literature review, research methodology, analysis and discussion of the research findings, conclusion and recommendations.

## Research Hypothesis

Ha: The dimensions of entrepreneurial orientation (ie. risk-taking, innovation and proactiveness) will significantly predict profitability of micro enterprises in the retail sector in a developing country (ie. Ghana).

## LITERATURE REVIEW

Entrepreneurial orientation (EO) of a firm is defined as firm that involves in technological innovation, undertakes risky ventures, and pursue opportunities proactively (Miller, 1983). Based on Miller's (1983) presentation of the idea of EO, three dimensions of EO have been identified and used over and over again in the literature. They are as follows: innovativeness, risk taking, and proactiveness dimensions. The innovativeness dimension of EO deals with new ideas, experiences, novelty and inventive processes which are part issues from current practice and trends related to technologies (Lumpkin & Dess, 1996; Wiklund & Shepherd, 2005). According to Dess and Lumpkin (2005), the dimension of innovativeness shows an organizational tendency to offer originality and creativity by carrying out research into new products, services, technology and fresh processes and system development (Dess & Lumpkin, 2005).

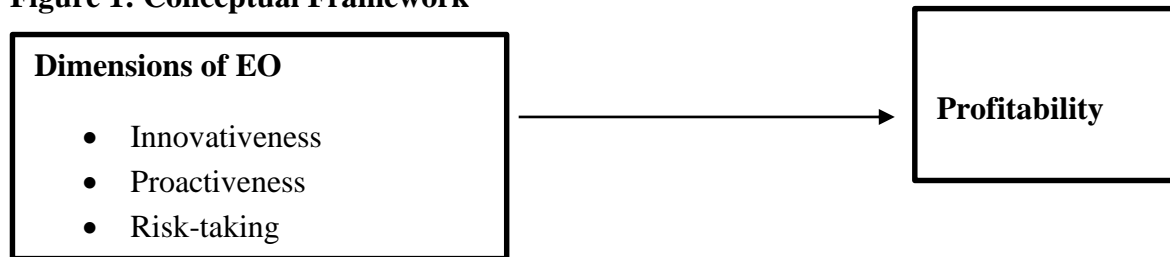
'Risk taking involves taking daring actions by undertaking the uncertainty, borrowing heavily, and or committing significant economic resources to undertake the unknown'. Risk-taking shows the tendency of a business firm to take courageous measures such as embarking on a fresh project, transferring a lot of the organisation's resources to undertake ventures with highly unpredictable outcome (Lumpkin & Dess, 2001; Miller & Friesen, 1978). Proactiveness refers to the forecasting and taking actions on future desires and demands in the marketplace, thereby forming a first-mover benefit against competitors (Lumpkin & Dess, 1996). In contrast, Lumpkin and Dess (1996; 2001) have maintained that these two are different dimensions of EO; competitiveness and autonomy.

Various studies have examined the effect of entrepreneurial orientation and business performance with most of these studies focusing developed countries with varied populations. For example, Karacaoglu et al. (2013) using a sample of 140 industrial manufacturing firms listed on Istanbul Stock Exchange (ISE) found that the original dimensions of entrepreneurship orientation (innovation, risk taking and proactiveness) have positive relation and interaction with financial performance of the firms. In a similar study, Kraus et al. (2012) using survey data gathered from 164 Dutch SMEs show that proactive firm's behavior positively contributes to SME performance during the economic crisis. It further shows that innovative SMEs do perform better in turbulent environments, but those innovative SMEs should minimize the level of risk and should take action to avoid projects that are too risky. Also, in their study of 94 Turkish manufacturing foreign direct investment (FDI) firms, Kaya and Agca (2009) found that two dimensions of entrepreneurial orientation, innovation and proactiveness positively and significantly affect performance of the firms. Furthermore, Coulthand (2007) conducted a Meta-analysis of four exploratory research projects covering different industries in Australia. The results showed that, there was a positive correlation between business performance and the dimensions of innovation and proactiveness in all

studies examined. However, risk taking is varied in importance and over time. He concluded that, the variations in the results were partly attributed to the researchers using different definition for each dimension.

In Africa similar studies were also conducted. For example, Fatoki (2014) studied entrepreneurial orientation of micro enterprises in the retail sector in South Africa. The results indicated that micro enterprises are adept in introducing new product lines and also making changes to the product line. The results also showed that Micro enterprises are less proactive and preferred to be followers rather than leaders. They are also not risk lovers. Similarly, Matchaba-Hove and Vambe (2014)'s study of small businesses in South Africa found that pro-activeness, and innovativeness have a significant positive influence on the success of the business, whereas risk taking do not. More so, Muthee-Mwangi and Ngugi (2014) study of 1420 Micro and Small Enterprises (MSEs) in Kenya found that innovativeness, risk taking, and pro-activeness, have a significant positive influence on growth of MSEs. In Ghana also, Boohene et al. (2012) found significant positive relationship exist between innovation, proactiveness and profitability. However, no relationship was found between risk-taking and micro firms' profitability. In spite of these studies, little have focused on micro enterprises in the retail sector. Hence, this study is worth investigation. Based on the above reviews, the model below is developed to guide the study's analysis.

**Figure 1: Conceptual Framework**



This study adopted cross-sectional survey design. The cross-sectional design helped the researchers to collect data from the participants at one point in time. The target population for this study was defined as all micro enterprise owners or managers in Madina-Accra. According to 2010 Population and Housing Census District Analytical Report on La-Nkwantang Madina Municipality published by Ghana Statistical Service in 2014, majority (29.2%) of persons 15 years and older employed are engaged in retail and related business activities. Also, of the population 15 years and older, majority (51.9%) are self-employed. This suggests that the level of entrepreneurship among the people of Madina is high and hence the choice micro enterprise owners in Madina in Ghana. 125 questionnaires were distributed to owners of micro enterprises in Madina-Accra but the valid and usable questionnaires were 110, representing 88% response rate. The researchers adopted purposive and convenience sampling techniques to select the participants for the study.

The research instrument used for this study was a questionnaire. EO dimensions (risk-taking, innovativeness, and proactiveness) was assessed by using modified version of eight items of original Covin and Slevin measure (1986) which was developed based on scale development work by Khandwalla (1977) and Miller and Friesen (1982). The use of these three traditional dimensions of EO is consistent with Kaya and Agca (2009) and Miller's (1983) original idea of EO dimensions which was later developed by Covin and Slevin (1986, 1989) and have been identified and used over and over again in the literature. Data on Profitability was collected using seven items on a 5-point Likert scale, with 1=strongly disagree to 5=strongly agree. The

items were adopted from Deshpande, Farley, and Webster (1993), Jaworski and Kohli (1993) and Samiee and Roth (1992). This scale items demonstrated consistent reliability in previous studies both internationally and locally. With the aid of Statistical Products and Services Solution (SPSS) version 20.0, the researchers employed Pearson Product-Moment Correlation and Hierarchical Regression to establish whether significant relationship exists between the dimensions of EO and profitability.

## RESULTS AND DISCUSSIONS

### Correlation Analysis

The researchers analysed the data using Pearson Correlation (r) Coefficient to determine whether significant relationship exists between the dimensions of entrepreneurial orientation and profitability. From Table 1, positive relationship exists between profitability and entrepreneurial innovativeness, but the relationship is not statistically significant ( $r = 0.48$ ,  $p > 0.05$ ). However, entrepreneurial proactiveness relates positively and significantly to profitability ( $r = 0.50$ ,  $p < 0.05$ ). Likewise, a significant positive relationship was found to exist between risk-taking and profitability ( $r = 0.50$ ,  $p < 0.05$ ). The relationship between both entrepreneurial proactiveness and risk-taking and profitability can be described as moderate or medium based on Cohen (1988)'s interpretation of correlation coefficient.

**Table 1: Pearson's Correlation Matrix of Dimensions of EO and Profitability**

Variable	Mean	SD	Profit	Innov	Proact	Risk
1. Profit	23.13	3.97	1			
2. Innov	9.87	2.26	0.48	1		
3. Proact	6.44	2.09	0.50**	0.52	1	
4. Risk	9.80	2.68	0.50**	0.38	0.39	1

\*\*Correlation is significant at 0.05 (2-tailed)

### Regression Analysis

Table 2 showed the results of the hierarchical regression analysis of the effect of entrepreneurial orientation dimensions and micro enterprises' profitability. In Model (1), entrepreneurial innovativeness did not predict profitability ( $\beta = 0.066$ ;  $p > 0.05$ ). In Model (2), proactiveness significantly predicted profitability ( $\beta = 0.319$ ;  $p < 0.05$ ). In Model (3) entrepreneurial risk-taking has significant effect on profitability ( $\beta = 0.232$ ;  $p < 0.05$ ).

**Table 2: Hierarchical Regression Predicting Profitability from Entrepreneurial Orientation Dimensions**

	Model 1	Model2	Model3
Entrepreneurial Innovativeness	0.179	0.066	0.056
Entrepreneurial Proactiveness	-	0.319**	0.277**
Entrepreneurial risk-taking	-	-	0.232*
R <sup>2</sup>	0.032	0.121	0.173
F-test	3.447	7.118**	7.114**

\* $p < 0.05$ , \*\* $p < 0.01$



## DISCUSSIONS OF RESULTS

The research hypothesis sought to ascertain if entrepreneurial orientation dimensions of risk-taking, innovativeness and proactiveness significantly relate to micro firms' profitability. It was found that there is no relationship between innovativeness and micro firms' profitability. This means that increases in entrepreneurial innovativeness will not be associated with increases in firms' profitability. This research finding contradicted the findings of earlier empirical researchers such as Fatoki (2014), Matchaba-Hove and Vambe (2014), Muthee-Mwangi and Ngugi (2014), Karaoglu et al. (2013); Kraus et al. (2012); Boohene et al. (2012), Kaya and Agca (2009) and Couthand (2007) who found in their studies found a significant positive effect of innovation on profitability. This current result may be due to the fact that the firms' owners or managers are not dealing in new products that are appealing to customers enough to patronize in order to increase their profit performance. It may also suggest that the owners are not introducing a new way to market their products, discovering new markets for their product, finding new sources of their products that are cost effective and can significantly impact on their profitability.

Furthermore, the study found that entrepreneurial proactiveness has significant positive effect on profitability of micro firms. This means that an increase in the performance of entrepreneurial proactiveness will be associated with increases in profitability. This result corroborated the findings of Matchaba-Hove and Vambe (2014), Muthee-Mwangi and Ngugi (2014), Karaoglu et al. (2013), Kraus et al. (2012); Boohene et al. (2012), Kaya and Agca (2009); and Couthand (2007). This research finding may be explained by the fact that high performing; entrepreneurial-oriented firms are successful in exploiting business opportunities. It also suggests that the owners of the firm are alert with opportunities in the marketplace (Koning & Brown, 2001). It may also suggest that the owners of the firms constantly engage in forecasting and taking actions on future demands in the marketplace, thereby forming a first-mover benefit against competitors (Lumpkin & Dess, 1996).

Finally, the study also found that there is significant positive relationship between entrepreneurial risk-taking behaviour and micro firms' profitability. This implies that an increase in the performance of entrepreneurial risk-taking behaviour will be associated with an increase in the profit performance of firms. This result is consistent with the findings of some earlier empirical researchers in the area such as Matchaba-Hove and Vambe (2014), Muthee-Mwangi and Ngugi (2014), Karaoglu et al. (2013) who found that entrepreneurial risk-taking has positive effect on profitability. This result on the other hand is inconsistent with some other earlier empirical researchers such as Kaya and Agca (2009) and Couthand (2007) who found out that entrepreneurial risk-taking behaviour has a negative relationship with firms profitability. It also contradicted the finding of Boohene et al. (2012) that no significant relationship exists between risk-taking and profitability. It may further suggest that the owners of the firm are always willing to allocate more resources of the organisation or borrow heavily to opportunities in the market in order to get high profit (Miller & Friesen, 1978).

## IMPLICATIONS FOR PRACTICE, POLICY AND RESEARCH

The results of this study are important to micro enterprise owners, development agencies and state institutions that are responsible for promoting micro businesses and entrepreneurship in

Ghana and other developing countries, in their effort to promote their success, sustained growth and overall contribution to sustainable economic development goals in developing countries.

Based on these research findings, it was recommended that the owners of the firms should engage in forecasting and taking actions on future desires and demands in the marketplace. Furthermore, micro enterprise owners should engage in regular customer surveys to know if there are changes in their taste and preference as far as their product lines are concern. This will help increase their alertness to the opportunities and threats in the marketplace. The results of this study are important to state institutions that are responsible for promoting micro businesses and entrepreneurship in developing countries, in their effort to ensure their success and growth.

These research findings should be interpreted in the light of the following limitations. First, the non-probability sampling methods adopted in this study could limit the generalization of the findings of the research. Also, this study focused only on micro enterprises that operate in the retail sector. This may not be applicable to large or medium scale businesses in the retail sector. Moreover, one wonders what will be difference in findings if comparable study was done in other urban communities in different regions in Ghana. Such a study may yield interesting insights. In addition, the issues of gender have not been explored. These could be a consideration in future studies.

## CONCLUSION

In conclusion the researchers investigated whether a significant relationship exist between the dimensions of EO and micro firms' profitability in Ghana. Two dimensions of EO namely, risk taking and proactiveness have significant positive relationship with micro firms' profitability. Interesting, entrepreneurial innovativeness did not have any effect on profit performance. This study therefore contributes to our understanding of the dimensions of entrepreneurial orientation that relate to profitability of micro enterprises in the context of retail sector in developing countries.

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#### **Note**

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