

## **Impact of Entrepreneurial Competencies on the Performance of Small and Medium Sized Enterprises in North-East Region of Nigeria**

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### **Abstract**

*The competitive nature of our small and medium sized business requires visionary thinking and creativity to achieve performance. Being strategic, ability to identify opportunity and creative is important but being competent is very vital for performance of SME. These can be achieved through formulating, evaluating, identifying, guiding, and encouraging of entrepreneurs. The paper therefore examines the competencies required for SME performance, as influenced by strategic, organizing and opportunity competency. The paper adopted a cross sectional approach and gathered quantitative data from 480 randomly selected firm in the six 6 states of the region. Finding shows that engaging in core competencies of strategic thinking, strategic actions and visionary leadership by the entrepreneur are positively related to SME performance. Engaging in organizing competencies, entrepreneurs require organizing and leading competencies which are positively related to SME performance. Findings also show a positive impact of opportunity competencies in identifying and taking advantage of business opportunity. The study concludes that though entrepreneurial competencies analyzed here are positively related to SME performance. Entrepreneurs ought to engage in training and development to better equip themselves with best competency. The study recommended that, stakeholders and policymakers should be devoted to allocating resources for training programs for prospective entrepreneurs.*

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### **Introduction**

The importance of small and medium-sized enterprises SME to the global economy cannot be overstated; the sector has seen a surge in performance literature in recent years, and as a result, the relationship between entrepreneurial competencies and SME performance has gotten a lot of attention from academics, practitioners, government officials, and international organizations (Sallem, Nasir, Nori, & Che Kassim, 2017). Sound entrepreneurial competences, according to Cohoon, Wadha, and Mitchel (2010), are a major predictor of SME performance, which helps to improve both the economic and social lives of the community by giving work possibilities. Mitchelmore and Rowley (2013) go on to say that the entrepreneur's competencies are one of the most important factors in determining the success, performance, and growth of a business.

According to Zafar & Mustafa (2017), the SME sector contributes between 55 and 65 percent of Gross Domestic Product (GDP) and employment, respectively in high-income countries (developed economies). Small and medium-sized enterprises (SMEs) produce 70% of GDP and 95% of total employment in middle-income nations (developing countries). Similarly, in low-income countries, they account for 60% of GDP and 70% of total employment. As a result, the importance of SMEs to any country's economic growth and development cannot be overstated.

Similarly, Micro, Small, and Medium Enterprises (MSME) generated roughly 50% of Nigeria's Gross Domestic Product (GDP) in 2017. (National survey of Micro Small and Medium Enterprises, 2017). In emerging economies, this is a considerable contribution. Shehu, Ibrahim, Mat, Nasiru, Popoola, Muhammad, and Kura, K, (2013) go on to say that business enterprises are critical to Nigeria's economic growth because small firms account for 97 percent of the economy and 70 percent of job opportunities. In Nigeria, SMEs employed 82.02 percent of the total workforce (Adebisi & Gbegi, 2013; Buowari, 2015).

However, the Nigerian Central Bank (CBN) indicated that the SMEs sub-sector in Nigeria underperformed in comparison to other developing nations, with challenges ranging from huge gaps in infrastructure, poor financial support and credit environment, high level of unskilled workforce and low investment commitment to bring pilot plants to commercial scale (Financial System Strategy 2020). Similarly, according to the National Bureau of Statistics (NBS) and the Small and Medium Enterprise Development Agency (SMEDAN), SMEs account for only 4.9 percent of the 86 percent of national workforce, in comparison to industrialized economies such as Japan, where SMEs employ approximately 74 percent of the workforce, the United States of America employs approximately 87 percent of the workforce, and Germany employs approximately 72.6 percent of its labor force. As a result, SMEs employ more than 70 percent of the workforce in industrialized countries. (NBS, SMEDAN 2017).

Despite the fact that the World Bank ranks Nigeria as Africa's largest economy in terms of GDP (2019), statistical data demonstrates that the contribution of SMEs in several developing African countries performs far better than Nigeria's. For example, SMEs contribute 70% of Zambia's GDP, while SMEs contribute more than 20% in South Africa. (Liedtke, 2019). In Ghana, the SME sector accounts for over 70% of the country's GDP (Lily, 2018). As a result, improving entrepreneur

competencies is required for better performance in the industry in order to compete with developing countries in the region.

As a result, the underperformance of SMEs has remained a major concern for organized private sector groups and Nigerian governments (Aminu & Shariff, 2017). The main challenges affecting SME performance can be summarized into insufficient competency from the side of the entrepreneur and bad managerial skills (Kanabe, 2019; Kamunge, Njeru, & Trimba 2014; Abor & Quartey, 2010). Furthermore, there are other variables and problems that contribute to SME underperformance in developing nations, such as negative economic conditions, a lack of proper government policies, weak infrastructure, insufficient skills, high operating expenses, and corruption. (Hafeez et al, 2013; Abdullahi & Sulaiman, 2015). Low ability, limited entrepreneurial aptitude, poor access to technology, and low productivity (Hussain, 2015), and the majority of company resources are misused and inefficiently used (Rauch & Hatak, 2016; Bloodgood, 2014). Furthermore, there is lack of understanding of how SMEs develop basic competencies and ensure their future performance (Greer et al., 2016; Parida et al., 2016 Azadegan et al., 2012).

According to Omar (2016); Tehseen, and Ramayah (2015) claimed that, the success of any business depends on some key resources, of which entrepreneurial competencies is the most critical and the most intangible. They believe that entrepreneurial competency is an important strategic resource of an enterprise, and many potential benefits can be obtained from these valuable competencies. It is important to realize that for entrepreneurs, a comprehensive understanding of entrepreneurial competencies is very important to effectively run a successful business (Ahmad, 2010). This knowledge of entrepreneur competency can make businessmen to be more prepared and alert about their attitudes towards the ups and downs that may occur in the business. It is widely assumed that the person who initiates, develops, advances, and creates progress is the one who employs entrepreneurial competency. (Mitchelmore & Rowley, 2010; Ahmad, 2010).

SME performance supports economic stability and functions as a buffer against economic shocks, particularly in developing nations where entrepreneurial research is limited (Hyder & Lussier, 2016; Coder, 2017). As a result, there is a critical need for study in the area of SMEs and entrepreneurship. Thereby, the current study is needed to cover a potential vacuum in the literature by examining the impact of entrepreneurial competencies on SME performance in North-east

region of Nigeria, and specifically to examine the impact of strategic competencies of SME performance, also to evaluate the impact of organizing competencies of SME performance and to investigate the impact of opportunity competencies of SME performance. Based on the above specific objectives, the paper develops hypotheses in null form in order to test the relationship between the study variables.

H<sub>01</sub>: *Strategic competencies has no significant impact on SME performance*

H<sub>02</sub>: *Organizing competencies has no significant impact on SME performance*

H<sub>03</sub>: *Opportunity competencies has no significant impact on SME performance*

The remaining part of the paper discusses the review of literature, methodology to be used for testing the hypothesis, discussion of findings and finally conclusion and recommendations for practical and administrative use.

### **Literature Review**

Eniola and Entebang (2015) define SMEs' performance as their ability to provide acceptable results and actions. The capacity to attain a defined goal is referred to as performance (Gathungu & Oabana 2018). According to Obiwuru, Okwu, Akpa, and Nwankere (2011), performance refers to how well a corporation accomplishes its stated objectives. The literature on the concept of performance is very extensive and on this note Eniola and Entabang (2015) asserted that performance is the primary concern of corporate managers or owners. Asakania (2016) further asserted that performance has various meanings, including Growth, survival, success, and competitiveness.

Hafeez, Shariff, and Rogo (2017) asserted in their research that performance is the result of business organization activities and can be measured by its limited resources. They view performance as the result of activities on scarce resources. According to Eniola and Entabang (2015) performance can be defined as a company's ability to produce acceptable actions and outcomes.

Generally, performance relates to a company's success (Herath & Mahmood, 2013). Performance can also apply to other indicators that assess a small or medium-sized business' financial capabilities, such as profit margins, profit growth, and investment levels (Hafeez, Shariff & Rogo, 2017). According to Kuang (2008), suitable performance measurements are those that allow an organization to steer its actions toward achieving its strategic objectives. Some individuals also feel that performance can be defined as a company's ability to

meet or exceed the predetermined goals or objectives established by its investors within a given time frame (Kim & Petel, 2017; Sefiani & Bown, 2013).

Personal characteristics, such as attitudes and behaviors that enable entrepreneurs to achieve commercial success are referred to as entrepreneurial competency (Sarwoko, Surachman, Armanu, Hadiwidjojo, 2013). Entrepreneurial competency, according to Man, Lau, and Chan (2002), is a set of higher-level attributes that includes personality traits, skills, and knowledge. They can be viewed as the entrepreneur's whole capacity to successfully execute his duty. Furthermore, according to Kiggundy (2002), entrepreneurial competency is the sum of the necessary aspects of entrepreneur success and sustainability, such as attitude, values, beliefs, knowledge, skills, talents, personality, wisdom, professional knowledge, and behavioral patterns are all factors to consider.

In order to grasp the concept of entrepreneurial competences, we define competency as the ability that an individual needs to perform a specific task. To put it another way, Woodruffe (1990) emphasizes that competence is a job-related notion that relates to the areas of work in which a person is competent. As a result, competent personnel or individuals are those who deliver on their performance expectation. Competency is considered as behavior and observable, but only partially interior characteristics of entrepreneurs (Bird, 1995). As a result, abilities are flexible and learnable, allowing Intervention in entrepreneurial selection, training, and development opportunities, relationship, concept, commitment, organization, and strategy are six primary entrepreneurial skill areas associated to SME performance identified by Man et al. (2002). These talents, which are classified as direct and indirect influences, have distinct effects on the performance of SMEs. As a result, entrepreneurial competence is comprised of a set of related information, attitudes, and abilities that entrepreneurs must acquire through management training and development in order to achieve exceptional results and maximize profits while managing company risks or operations. Other crucial characteristics are self-assurance, dedication, leadership, ambiguity tolerance, creativity, education, and experience. Entrepreneurs value all of these characteristics. As a result, the three dimensions of entrepreneurial competency proposed by Man and Lau are considered in this study (2002). These are: Competencies in strategic planning, organizing competency and opportunity competences, as well as their role in forecasting SME performance, will be highlighted.

Strategic competency is concerned with the formulation, evaluation, and implementation of company-wide strategies (Man, Lau, & Chan, 2002). Ahmad, Ramayah, Wilson, and Kummerow (2010) defined strategic competency as an entrepreneur's capacity to track the progress of strategic goals and set work priorities that are aligned with corporate objectives by recognizing long-term issues, dangers, or opportunities, and matching present actions to strategic objectives. Match the results to the strategic goals, redesign the business to fully fulfill long-term objectives, and analyze the costs and advantages of strategic measures. It can also build long-term strategic plans and strategies that help realize the plan (Stonehouse & Pemberton, 2002). Strategic competencies include strategic thinking, which reflects the competencies of an enterprise. The leader of the organization develops a vision for the future and takes strategic actions that require them thinking beyond daily operations (Stonehouse & Pemberton, 2002).

The capacity of entrepreneurs to guide, lead, delegate, encourage, plan and arrange work, establish plans, and manage firm finances is known as organizing competency (Kaur & Bains, 2013). This ability is linked to management ability (Umeze & Ohen, 2015). It entails overseeing the organization's internal and external plans, such as the promotion of corporate goods and services, adequate financial, logistical, and human resource management (Lans, Verstegen, & Mulder, 2011; Wickramaratne, Kiminami, & Yagi, 2014) McClelland (1987) suggests that monitoring is essential in keeping the firm operating efficiently, suggesting that entrepreneurs should be able to monitor closely their business activities so that activities are appropriately carried out. In addition, the management of human resources in SME is reported as distinctive activities which require entrepreneurs to equip themselves with organizing skills especially leading, delegating, coaching and training (Martin & Staines, 1994).

One of an entrepreneur's most important skills is the ability to spot and capitalize on business possibilities that can boost the company's success. Entrepreneurial activities that actively seek for new opportunities, identify them, and develop them are examples of opportunity competency (Seabela & Fatoki, 2014). One of the crucial factors for a company's success, according to Hoyos-Ruperto, Romaguera, Carlsson, and Lyytinen (2013), is a positive perception of the many prospects in the market. This indicates that entrepreneurs who wish to build their businesses quickly should pay attention to this ability. Otherwise, their company will not grow as quickly as anticipated. The recognition of high quality opportunities prompts entrepreneurs to create organizations and embrace

considerable risks to turn these opportunities into positive outcome. It was revealed that an important competency requirement for growing companies is the readiness to seize relevant opportunities (Snell & Lau, 1994). Entrepreneurs are also required to engage in a continuous search for products and services that could add value for the buyers or end users because the decision to exploit the opportunities depends on the entrepreneurs' knowledge of customer demand (Choi & Shepherd, 2004).

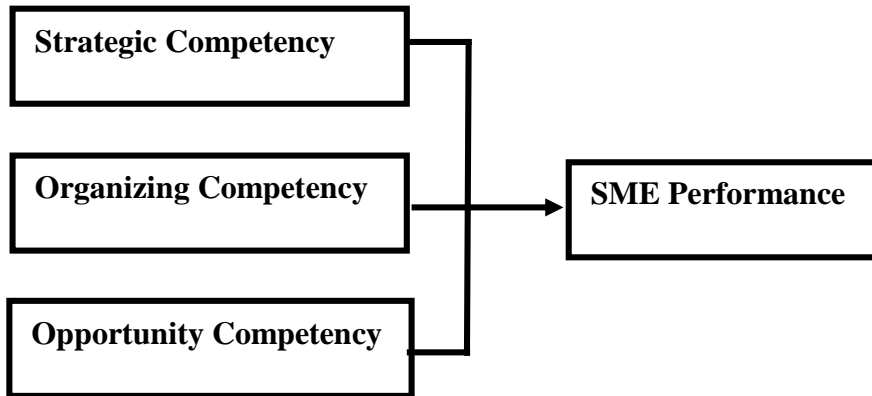
This section examines pertinent empirical studies in order to identify a research gap for this study. Gwadebe and Amirah (2017) found a positive and substantial link between entrepreneurial qualities, innovation, and entrepreneurial marketing and SME performance in Nigeria in their study of entrepreneurial skills and SME performance in a tough Nigerian economy. Sidek and Mohammed (2014) used data from microfinance bank participants in Kelantan and Terengganu to investigate the association between managerial and entrepreneurial skills and the expansion of microfinance organizations in a separate study. Using structural equation modeling (SEM) methodologies, the researchers discovered that all aspects of management skills are technical. The development of small enterprises is positively influenced by general and conceptual skills. In their study, Abbaszade, Enyi, and Rabeie (2012) looked at the relationship between management competency and staff efficiency. The findings of the study reveal a strong link between managerial abilities and the most efficient utilization of firm resources. An in-depth analysis of entrepreneurial competencies, according to Endi, Surachman, Armanu, and Djumilah (2013) believe that an in-depth analysis of entrepreneurial competencies have two origins: first, they are more deeply rooted in the components of the entrepreneur's background (i.e. traits, personality, attitude, self-Image, and social role), and second, the components (that is, skills, knowledge, and experience) it can be learned on the job or through theoretical or practical learning, and is expected of a competitive entrepreneur, according to Magdalena (2011), believes that entrepreneurial competencies is a predictor of SME performance. According to Mohammed, Ibrahim, and Shah (2017)'s study on the link between women's entrepreneurial ability and SME success, strategic, opportunity and organizing competency have significant performance in women entrepreneurs in Nigeria.

Similarly, Mamun and Zainol (2018) discovered that commitment competency, conceptual competency, organizing competency, and opportunity recognition competency have a significant impact on entrepreneurial competency, competitive

advantage, and performance of informal women micro-entrepreneurs in Malaysia in their study. Furthermore, Arinaitwe, Mwesigwa, and Anyongyeire (2016) conducted a groundbreaking study on the relationship between entrepreneurial competency, ethical environment, and the performance of Ugandan health projects. It was discovered that there is a clear link between entrepreneurial competency, ethical atmosphere, and project performance. Fatoki's (2014) study looked on the impact of managerial skills on the performance of enterprises in South Africa According to the study findings, there is a link between management skill and corporate performance.

Manani and Ngui (2019) looked into the effect of employee capacity on employee performance in Kenyan humanitarian organizations. Employee competency has a favorable and considerable impact on company success, according to the findings. Masoud and Khateeb (2020) also looked at the impact of entrepreneurial skills on small business performance in Jordan. The study looked at how communication, planning and organization, strategic thinking and scenario creation, teamwork, and customer focus affected business performance. Communication, planning, and organization have a favorable and significant impact on Jordanian company performance, according to the study. Entrepreneurial skills, it was said, are linked to the firm's performance and competitiveness (Man et al., 2002). Entrepreneurial competency is linked to business growth and success, according to a different study conducted by Colombo and Griili (2005).

As a result of the review of some empirical studies and previous research on the literature, study conducted by Mohammed, Ibrahim and Shah (2017) established a link between entrepreneurial competencies and SME performance but limited to only women entrepreneurs in Kaduna state, also study conducted by Mamun and Zainol established a link between the study variables but limited to only women microenterprises in Malaysia, in addition, study conducted by Masoud and Khatheeb (2020) established a link between the variables but took a different dimension of entrepreneurial competencies (communication, planning and organizing, strategic thinking and teamwork) in explaining the relationship. It's clearly evident that only few studies in the literature discuss the dimensions of entrepreneurial competency in relation to performance as suggested by Man and Lau (2002) (Strategic, Organizing, and Opportunity competency), and none has specifically discuss the impact at the sub-region of Nigeria comprising of 6 states. The current study intends to fill the gap in the literature by examining the impact of entrepreneurial competency of SME performance at the regional level.



**Figure 1.0 Research Framework**

The RBV, introduced by Barney in 1991, is the underpinning theory utilized to explain the proposed research approach. RBV believes that businesses have assets, and that a subset of these assets enables them to achieve superior long-term performance (Saqib & Rahid, 2013). Famous and unique assets can easily band together to establish a competitive edge. As a result, this strong position can be maintained for a long time while delivering consistent results. Important, identifiable corporate assets and capabilities, according to RBV, are the primary foundation for long-term competitive advantage (Hart, 1995). RBV explained that there is a connection between a company's assets and its success (Hart, 1995). Penrose (1959) feels that an organization's resources are vital to the organization's excellent performance. Similarly, Barney (1991) argues that firms with significant and unique resources will obtain a competitive advantage and achieve long-term success. As a consequence of this study, the enterprise's resources signify entrepreneurial competency, which is the research's predictor variable. Entrepreneurial competency, according to RBV, should have a favorable impact on business performance. As a result, the relationship between the predictor and criteria variables in the study is now clear.

### **Research Methodology**

The methodology and procedures utilized to perform this research are documented in this section. Population, sample size, research instruments, and data processing methodologies are all covered. This study is primarily a survey in nature. A quantitative research design is used in this investigation (using a cross-sectional survey). Data were collected via self-administered questionnaires and

with the assistance of a research assistant. The cross-sectional study, according to Sekaran and Bougie (2013), is a one-time study that only collects data once. SMEs in the northeast region are included in the study's population as from the date of release of 2017 SMEDAN report. In the sub region, there are 4,545 registered SMEs (SMEDAN, 2017). The study employed Yamane's (1967) formula for calculating a minimum sample size, which is 369. However, the sample size was increased by 30% to 480 to cater for non-response bias (Israel, 2013).Borno, Yobe, Gombe, Bauchi, Taraba, and Adamawa are the six states that make up the Northeast region's SMEs. A questionnaire was created using items from prior studies to measure each of the study's four (4) factors (Man et al 2002). Only owners/managers of registered SMEs operating in the region received questionnaires. A total of 321 questionnaires. Although many responses were received, only 286 were deemed fit, which is adequate for data analysis (Tabachnick & Fidell, 2013). The data was examined using the SmartPLS3 via structural equation modeling (SEM).

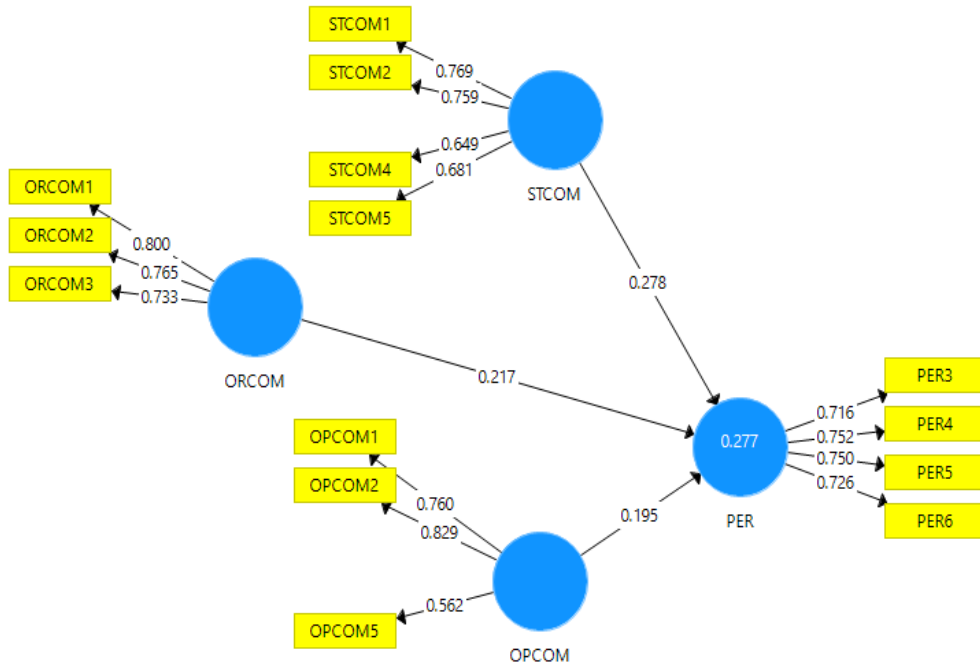
S/N	N-E STATES	SME IN STATES	APPORTIONED QUESTIONNAIRE
1	BORNO	16.6% OF 480	80
2	YOBE	16.6% OF 480	80
3	BAUCHI	16.6% OF 480	80
4	GOMBE	16.6% OF 480	80
5	ADAMAWA	16.6% OF 480	80
6	TARABA	16.6% OF 480	80
7	TOTAL		480

Source: Researchers computation (2021)

## **Data Analysis/Discussion of Findings**

### ***Measurement model***

The PLS-SEM path modeling measurement model is used to assess the model's reliability and validity in order to select the measurement model. Table 1 shows how the research structure's reliability and convergence validity are represented. The route model (connection) between the independent variables (STCOM, ORCOM, and OPCOM) and the dependent variable (SME PER)



**Table 4.1 Construct Reliability and Validity**

<b>Construct</b>	<b>Items</b>	<b>Loadings</b>	<b>AVE</b>	<b>CR</b>
Strategic Competence	STCOM1	0.76	0.51	0.80
	STCOM2	0.75		
	STCOM4	0.64		
	STCOM5	0.68		
Organizing Competence	ORCOM1	0.80	0.58	0.81
	ORCOM2	0.76		
	ORCOM3	0.73		
Opportunity Competence	OPCOM1	0.76	0.52	0.76
	OPCOM2	0.82		
	OPCOM5	0.56		
SME Performance	PER3	0.71	0.54	0.82
	PER4	0.75		
	PER5	0.75		
	PER6	0.72		

Note: AVE stands for Average Variance Extracted while CR represents Composite Validity, items that did not meet the minimum requirement were deleted from the data set.

The composite reliability (CR) is used to test the reliability of the constructs, and the average variance extracted (AVE) as suggested by Garson (2016) is used to determine the convergent validity of such constructs. However, for each reflective construct that achieves internal consistency reliability, its CR value should be  $\geq 0.7$  (Lee and Chen, 2013), and AVE should be  $\geq 0.5$  to achieve convergence validity (Garson, 2016). The project load should be higher than 0.5 (Hair, Black, Babin & Anderson, 2014). Based on the results shown in Table 1 above, the reliability of all constructs was thus achieved. On the other hand, since the total average score of each construct (that is, the average of the factor loading square of each construct item) is higher than the threshold value of 0.50, this clearly shows that each of these constructs explains more than 50% variance of its indicators

(Hair et al., 2014). Therefore, reliability and convergent validity are thus achieved.

Table 4.2 Discriminant Validity *Heterotrait-Monotrait Ratio (HTMT)*

Construct	1	2	3
OPCOM			
ORCOM	0.513		
PER	0.521	0.618	
STCOM	0.385	0.790	0.619

Table 4.2 present the results of discriminant validity using HTMT, all items loaded are below the minimum threshold of 0.85. Richer, Ringle and Marko (2018) stated that discriminant validity can be tested for conceptually similar construct when  $HTMT < 0.90$  while for conceptually different construct when  $HTMT < 0.85$ . Therefore, discriminant validity is achieved in table 2.

**Structural Model**

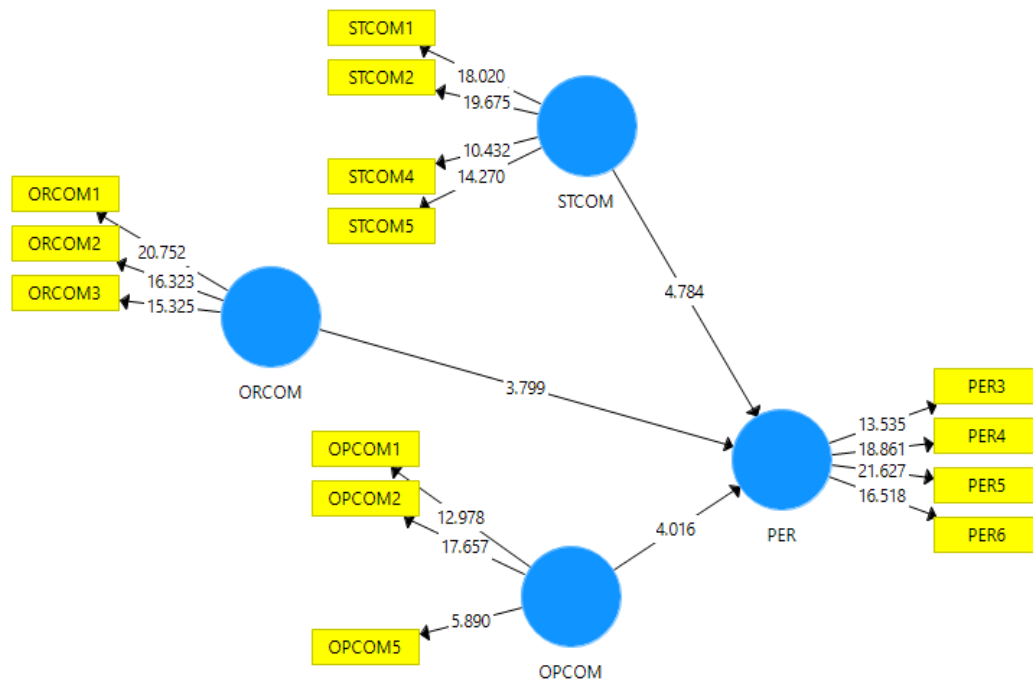


Figure 2.0 shows the bootstrapping results of the hypothesized relationship of the construct, showing positive and significant relationship of the construct.

**Table 4.3 Test of Hypothesis**

Hypothesis	Relationship	Beta	Standard error	T Values	P values	Decision
H <sub>01</sub>	STCOM>PER	0.19	0.047	4.16	0.00	Rejected
H <sub>02</sub>	ORCOM>PER	0.21	0.056	3.86	0.00	Rejected
H <sub>03</sub>	OPCOM>PER	0.27	0.058	4.81	0.00	Rejected
R Square		0.27				

Table 4.3 represents the result of hypothesized relationships of the study. It can be seen from the above table that strategic competency have a significant positive impact on the performance of SMEs ( $\beta=0.19$ ,  $p<0.01$ ). Therefore, this study rejected  $H_{01}$  empirically.

Similarly, the empirical analysis results show that organizing competency have a significant positive impact on the performance of SMEs ( $\beta=0.21$ ,  $p<0.01$ ). Therefore,  $H_{02}$  was rejected. In addition, the structural model analysis of the study shows that opportunity competency has a significant positive impact on the performance of SMEs ( $\beta=0.08$ ,  $p<0.01$ ). Therefore,  $H_{03}$  was also rejected and thus, the three alternative hypotheses were accepted. The adjusted R-squared is 27%. This means that strategic competency, organizing competency, and opportunity competency explain 27% of the changes in the performance of SMEs in the north-eastern region of Nigeria.

### **Discussion of Findings and Conclusion**

Because there is a dearth of or limited empirical evidence for this link in the small and medium-sized sectors in this region of Nigeria, the study empirically explores the relationship between entrepreneurial competency and SME performance. As a result, this study fills in the information vacuum by establishing the link between strategic competency and firm performance, with information based on a sample of registered small and medium-sized businesses in the region. Strategic competency, organizing competency, and opportunity competency all have a major impact on company performance. This supports the findings of Al-Mamun and Zainol's (2018). All of the competencies examined in this study are powerful predictors of SME performance, according to the study's findings. As a result, the report recommends that firm executives develop positive interactions among their staff at all times. Furthermore, managers should always propose strategic competency/objectives that all company employees will work hard to achieve, as this may aid enhance performance. Organizing and opportunity competency, on

the other hand, play a critical role in the success of small and medium-sized businesses in the region, and they demand special attention from business leaders since they have great predictive capacities for SME performance.

### **Recommendation and Limitations**

Existing and aspiring entrepreneurs in the region should aim for stronger entrepreneurial competences (strategic, organizing, and opportunity) in order to achieve positive results in the sector, the study recommend policymakers and stakeholders to engage current and prospective entrepreneurs in training and development to better equip them with best entrepreneurial competencies. The study also experience some deficiencies, the study centered the distributions of questionnaire in the metropolis due to inability to access some remote villages and towns. This was consider the major limitation of the study

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