

DETERMINANTS OF EMPLOYEE ENTREPRENEURIAL BEHAVIOUR OF  
FINANCIAL PERFORMANCE IN NIGERIAN SMALL AND MEDIUM  
ENTERPRISES (SMES)

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**Abstract**

The Nigerian economy is undergoing rapid transformation in the area of business operations. Two factors can be said to be responsible for this dramatic changes. The first one is globalization, which is responsible for explosive growth of international business and competition. No country can afford to be isolated. The second factor is the activities of the small and medium sized enterprises (SMEs). The SMEs sector is said to be responsible for 63% of youth employment in Nigeria. In a country where unemployment is high, the performance of the SMEs will not only contribute to National income, it will also help in reduction of crime rate. Employees play significant role in enhancing the financial performance of SMEs. This study seeks to investigate the determining factors for employees entrepreneurial attitude. Survey research method was used. Questionnaires and interviews constituted the main instruments for data collection. Analysis of variance (ANOVA) was used to analyze the data. The study found that monetary and non-monetary rewards are drivers of employee entrepreneurial attitude in SMEs. Training and retraining of employee on positive attitude was among major recommendations in this study.

**Keywords:** *Entrepreneurship, Employee Attitude, Rewards, and Enterprises*

### Background to the Study

National economies all over the world are experiencing changes in volumes of business transactions and monetary value. These changes can be attributed to two forces, namely; globalization and technology (Badi and Badi, 2008). Globalization is responsible for explosive growth of international business and competition. Technology has made advances in speed of communication and the use of high performance facilities quite easier. Small and Medium Enterprises (SMEs) in developing economies have taken advantage of globalization and modern technology to enhance their performance (Aganga, 2013).

In Nigeria, SMEs provide employment to millions of young people thereby contributing to poverty alleviation. According to Nawde, Szirma and Goedhuys (2011), employees of SMEs in some countries like India are making best use of the opportunities that are made available with the sweeping changes that are taking place in growth of business and globalization. They achieve this with their inherent intelligence, drive and hard work (Badi and Badi, 2008). SMEs in Nigeria contribute to National wealth creation and economic growth aside from employment generation.

Although several studies have been done in the area of poverty alleviation and employment creation by SMEs in Nigeria. The extents to which employee entrepreneurial drive influence the performance of SMEs have not been subjected to empirical tests. This study seeks to explore the determining factors for employee entrepreneurial drive of SMEs in Nigeria.

### Research Objectives

The study seeks to investigate the determinants of employee entrepreneurial drive towards financial performance of the SMEs in Nigeria. Specifically, the study seeks to:

1. Establish if monetary rewards determine employees behavior in Nigerian SMEs;
2. Examine if Non-Monetary rewards affect employee's drive towards financial performance of SMEs in Nigeria; and
3. Determine whether environmental factors have effects on employees' entrepreneurial behavior in Nigerian SMEs.

### Nature of Employee Entrepreneurial Qualities

The nature of employee entrepreneurial qualities as an individual plays a significant role to the financial performance of an enterprise. Citing McClelland, Badi and Badi (2008) stated that an employee's entrepreneurial qualities include technical competence, risk taking, high initiative, good judgment, intelligence to analyze and solve problem areas, leadership qualities, confidence, positive attitude, high level of energy, creativeness, honesty, integrity, emotional stability and fairness.

An employee should have the first hand knowledge of the product, processes and end users to bring inventive ability and sound judgment of the planned project. Flexibility, good social behavior, open mind and desire to take personal responsibilities will fit in an employee with entrepreneurial qualities. Though such employees come from different strata in the society, they have common characteristics. They overcome the resistances and obstacles that stand in the way of achieving success.

### Understanding the Concept of Entrepreneurship

Entrepreneurship is one of the four mainstream economic factors, land, labor and capital being the others. The word entrepreneurship derived from 17<sup>th</sup>-century French philosophy. *Entreprendre* refers to individuals who were “undertakers”, meaning those who “undertook” the risk of the new enterprise. They were “contractors” who bore the risk of profit or loss, and many early entrepreneurs were soldiers of fortune, adventurers, builders, merchants, and, incidentally, funeral directors. Liles (1974).

Early reference to the entrepreneur in the 14<sup>th</sup> century spoke about tax contactors-individuals who paid a forced sum of money to a government for the license to collect taxes in their region. In the 19<sup>th</sup> century, entrepreneurs were the captains of industry, the risk takers, decision makers, the individual who aspired to wealth and who gathered and managed resources to create new enterprises (Schumpeter, 1934). Notable early French, British, and Austrian economists wrote enthusiastically about entrepreneurs as the “change agents” of progressive economies.

### Economics and Entrepreneurship

Richard Cantillon, French economist, was credited with giving the concept of entrepreneurship a central role in economics. In his *Essaisur la nature du commerce en general*, Cantillon described an entrepreneur as a person who pays a certain price for a product to resell it at an uncertain price, thereby making decisions about obtaining and using resources while consequently assuming the risk of enterprise. A critical point in Cantillon's argument was that entrepreneurs consciously make decisions about resources allocation O'neile (1989)

Adam Smith spoke of the “enterpriser” in his 1776 *Wealth of Nations* as an individual who undertook the formation of an organization for commercial purposes. In Smith's view, entrepreneurs reacted to economic change, thereby becoming the economic agent who transformed demand into supply.

In 1848, British economist John Stuart Mill elaborated on the necessity of entrepreneurship in private enterprise. The term entrepreneur subsequently became common as a description of business founders, and the fourth factor of endeavour was entrenched in economic literature as encompassing the ultimate ownership of a commercial enterprise (Mintzberg, 1990)

Carl Menger (1840-1921) established the “subjectivist perspective of economics” in 1871 *Principles of Economics*. The entrepreneur becomes, therefore, the change agent who transforms resources into useful goods and services, often creating the circumstances that lead to industrial growth. However, Menger saw the entrepreneur as an astute individual who could envision this transformation and create the means to implement it. Menger assigned priority numbers to different events in his chain so that a high-priority event would have a low number (e.g., 1) and would be an ultimate “end use” to satisfy a human need. At the other extreme, Menger assigned to a low-priority event with a high number (e.g., 8) and this might represent raw material needed to create the number 1 event: fields of unharvested wheat would have a low priority. O'neile (1989)

#### Entrepreneurship as a Process

Joseph Schumpeter, Austrian economist revived the concept of entrepreneurship when he joined Harvard University and his work was published in the United States in 1934. Schumpeter described entrepreneurship as a force of “Creative destruction” whereby established ways of doing things are destroyed by the creation of new and better ways to get things done. Schumpeter (1934)

#### Defining Entrepreneurship

The Entrepreneur seeks, in Schumpeter's word, to reform or revolutionized the pattern of production by exploiting an invention or, more generally, an untied technological possibility for producing a new community or producing an old one in a new way, by opening up new source of supply of materials or a new outlet for products... Entrepreneurship, as defined, essentially consist in doing things that are not generally done in the ordinary course of business routine. (Cunningham and Lischeron (1991)

The evolution of the concept has generated many definitions, but perhaps a recent one by writer Robert Ronstad captures its essence:

Entrepreneurship is the dynamic process of creating incremental wealth. This wealth created by individuals who assume the major risks in terms of equity, time, and/or career commitment of providing value for some product or service. The product or service itself may or may not be new or unique but value must somehow be infused by the entrepreneur by securing and allocating the necessary skills and resources (Inegbenebor, 2006)

#### Definition of Entrepreneurship Today

The concept, of an entrepreneur is further refined when principles and terms from a business, managerial, and personal perspective are considered. In particular, the concept of entrepreneurship from a personal perspective has been thoroughly explored in this century. This exploration is reflected in the following three definitions of an entrepreneur:

In almost all of the definitions of entrepreneurship, there is agreement that we are talking about a kind of behavior that includes: (1) initiative taking, (2) the organizing and re-organizing of social and economic mechanisms to turn resources and situations to practical account, (3) the acceptance of risk or failure.

To an economist, an entrepreneur is one who brings resources, labour, materials, and other assets into combinations that make their value greater than before, and also one who introduces changes, innovations, and a new order. To a psychologist, such a person is typically driven by certain forces, the needs to obtain or attain something, to experiment, to accomplish, to perhaps to escape the authority of others. To one businessman, an entrepreneur appears as a threat, an aggressive competitor, whereas to another businessman the same entrepreneur may be an ally, a source of supply, customer, or someone who creates wealth for others, as well as finds better ways to utilize resources, reduce waste, and produce jobs others are glad to get (Churchill and Lewis, 1992).

Entrepreneurship is the dynamic process of creating incremental wealth. The wealth is created by individuals who assume the major risks in terms of equity, time and/or career commitment or provide value for some product or service. The product or service may or may not be new or unique, but value must somehow be infused by the entrepreneur by receiving and locating the necessary skills and resources. (Kuratko, & Hodgetts, 2004). Indeed, employees with good entrepreneurial drive will provide the much needed tonic for enhanced financial performance by SMEs

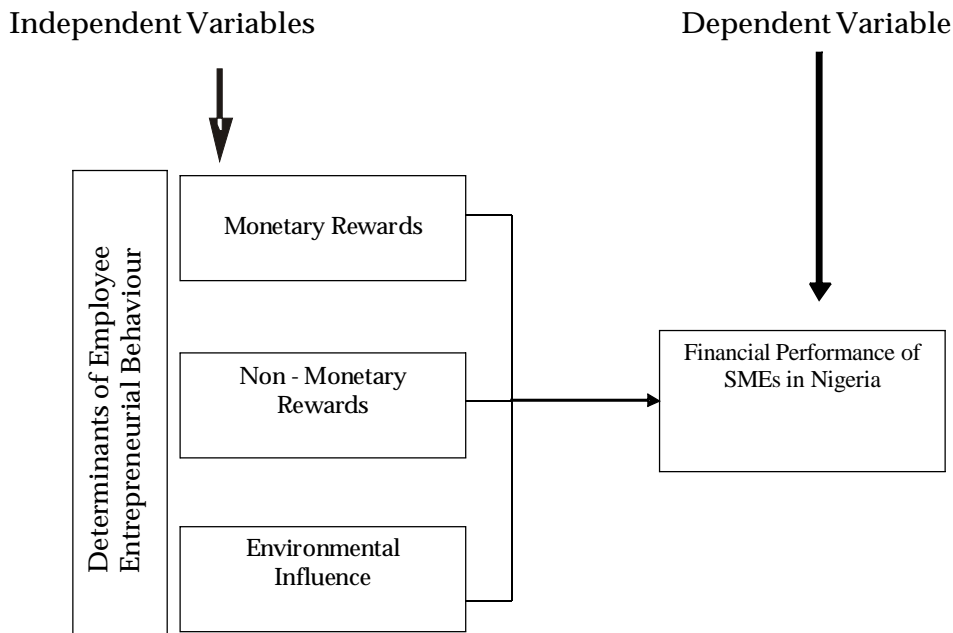


Fig 1: Conceptual Framework

### Methodology

The study employed the survey research method. The survey method has the advantage of versatility (Cooper and Schindler, 2008). Questionnaires and Scheduled interviews were used to collected primary data. Data were also obtained from secondary sources. The study was carried out in the northern state of Kaduna, Nigeria. The area is densely populated as the average population density of 354 persons per square kilometer is more than the National average of 96 persons/sq km (NPC, 2006). There is also high prevalence of entrepreneurial businesses in Kaduna. Analysis of variance (ANOVA) was used to analyze the data.

### Analysis of Findings and Discussions

#### Objective One

#### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.718 <sup>a</sup>	.516	.504	.52393

a. Predictors: (Constant), Monetary Rewards, Non-Monetary Rewards and Environmental Influence.

The above analysis shows that the correlation between independent variables (monetary rewards and non-monetary rewards) and performance of SMEs in Nigeria is 0.781 implying a strong linear relationship between the independent variables and financial performance of SMEs in Nigeria. The coefficient of determination  $R^2$  is 0.516 indicating that 51.6% of the variation in performance of SMEs is explained by the independent variables.

ANOVA<sup>a</sup>

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	37.424	3	12.475	45.445	.000 <sup>b</sup>
1 Residual	35.136	128	.275		
Total	72.561	131			

- a. Dependent Variable: SMEs Performance
- b. Predictors: (Constant), Monetary rewards, Non-Monetary Rewards and Environmental Influence

Coefficients<sup>a</sup>

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	-1.036	.240		-4.319	.000
Monetary rewards	1.435	.250	.539	5.739	.000
1 Non-monetary Rewards	1.524	.444	.398	3.434	.001
Environmental influence	-.242	.423	-.085	-.572	.568

- a. Dependent Variable: Department

From ANOVA table, it shows that the model,  $SMEs\ Performance = 1.036 + 1.435 * Monetary\ Rewards + 1.524 * Non-Monetary\ Rewards - 0.241 * Environmental\ influence$  is significant since the p-value (0.00) from the table is less than 0.05 (alpha) at 95% confidence limit, as such the model can be used for forecasting.

Furthermore from the co-efficient table above, it shows that the independent variable (environmental influence) does not have significant effect on the dependent variable (performance of SMEs), this implies that the variable does not have influence on the financial results of SMEs in Nigeria. Therefore the variable which influence the performance of SMEs in Nigeria are (Monetary and Non-monetary rewards) since their p-values (0.00, and 0.001) respectively are less than 0.05 level of significance (alpha) at 95% confidence limit.

From time immemorial, employees are interested in industry. The development in the areas of industrialization had been affecting employee's industrial and entrepreneurial culture on a continuous basis. Aside from the technical competence of employees, the results of this study indicate that employees do have broad desires that stimulate their entrepreneurial drive. Individually they are attached at emotional level to the financial benefits derived from their jobs salaries and other allowances, bonuses etc.

Employees in Nigerian enterprises have a common pattern of behavior with regard to other physical rewards. Many of them valued living in good houses and driving good cars. Jobs that offer opportunities for these rewards serve as extra motivation for enhanced performance. By implication, employees' capacity to take risk, take full responsibilities, put in hard work, innovative thinking and high sense of achievement are all affected by both monetary and non-monetary rewards. This in-turn has great effect on financial performance of the enterprises.

Furthermore, results of this study show that although the need for achievements can come from the socio-economic background of the employee, some environmental factors do not on their own affect the entrepreneurial drive of the employees. Respondents confirmed that harsh economic environment may not deter individual employees from putting in their best. Respondents were also of the view that achievement orientation and entrepreneurial attitude can be enhanced by proper training.

### Conclusions

Small and Medium Sized Enterprises (SMEs) in Nigeria are a huge source of employment opportunities. SMEs are helping industrial growth in turn helping national income. Growth of industry means economic progress in sectors such as agriculture, mining, manufacturing and other sectors. Industrialization is providing better and more employment opportunities in addition to advantages in international trade. The entrepreneurial capacity and drive of employees are essential for success of SMEs. Individual employees with technical competence need to back it up with risk taking, high initiatives, good judgment, and intelligence to analyze and solve problems, leadership qualities, honesty and high level of energy.

### Recommendations

These qualities can be guaranteed, if the employees are properly motivated with the right monetary and non-monetary incentives. The following recommendations will therefore be useful in this sense:

1. Employee training and retraining in relevant core areas as well as positive attitude should be accorded priority attention by SMEs.



2. Advancement and promotions should be backed up with appropriate monetary rewards to spur employee performance.
3. Government should provide the necessary infrastructure such as good roads and electricity for SMEs activities to flourish.
4. SMEs should adopt appropriate performance evaluation system for employees. Rewards should be commensurate with accomplishment.
5. Government should introduce new tax friendly policies that will encourage SMEs owners to expand their scale of operations.
6. SMEs should pay greater attention to non-monetary rewards such as staff housing projects.

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